

UNDERSTANDING THE ROLE OF SANCTIONS UNDER THE IRAN DEAL: ADMINISTRATION PER- SPECTIVES

HEARING BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING THE NATURE OF THE SANCTIONS RELIEF THAT IS BEING PROVIDED TO IRAN, INCLUDING THE RECENT FOCUS ON THE POTENTIAL FOR GIVING IRAN ADDITIONAL ACCESS TO THE U.S. FINANCIAL MARKET IN RETURN FOR ITS PREVIOUSLY NEGOTIATED TEMPORARY NUCLEAR-RELATED COMMITMENTS SET FORTH IN THE "JOINT COMPREHENSIVE PLAN OF ACTION"

MAY 25, 2016

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



Available at: <http://www.fdsys.gov/>

U.S. GOVERNMENT PUBLISHING OFFICE

22-556 PDF

WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

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UNDERSTANDING THE ROLE OF SANCTIONS UNDER THE IRAN DEAL: ADMINISTRATION PERSPECTIVES

WEDNESDAY, MAY 25, 2016

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 2:31 p.m., in room SD-538, Dirksen Senate Office Building, Hon. Richard C. Shelby, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order.

Yesterday here in this Committee, we received testimony from a panel of experts on the challenges and the consequences of suspending economic sanctions on Iran as agreed to in the Iran deal.

They discussed, among other things, several issues in implementing the deal and the risks posed by granting Iran additional concessions in light of its demand for more economic relief.

And while the Administration has been campaigning for Iran's rapid reintegration into the world economy, there is nothing preventing Iran from using funds made available under the deal to further destabilize the region. This includes further contributions to known terrorist organizations such as Hezbollah.

It also includes additional investment in Iran's ballistic missile system, which could be a conduit for restricted nuclear activities should Iran back away from the deal.

Given these and other serious threats, which Iran has made clear will persist, the Administration must have the ability and the will to reimpose swift punitive measures should Iran not uphold its end of the agreement. And I believe Congress must ensure that the statutory authority is in place to reapply strong economic sanctions against Iran if need be.

I look forward to hearing our witnesses' testimony today on how the Iran deal is being implemented and, in particular, the actions the Administration is taking to further facilitate Iran's access to the global financial system.

Our first witness is Mr. Adam Szubin. He is no stranger to this Committee. He is Acting Under Secretary of the Treasury for Terrorism and Financial Crimes of the Office of Terrorism and Financial Intelligence, and his nomination is pending on the Senate floor for the permanent job.

He will be followed by the Honorable Stephen D. Mull, Lead Coordinator for Iran Nuclear Implementation at the U.S. Department of State.

I welcome both of you gentlemen. Your written statements will be made part of the record in their entirety, and at this point I will recognize Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman. Mr. Szubin, Mr. Mull, welcome to both of you.

Yesterday we heard a range of witnesses discuss the Joint Comprehensive Plan of Action and the application of the existing sanctions architecture to combat Iran's malicious activity. Those remaining sanctions target Iran's sponsorship of terrorism, its human rights abuses, its ballistic missile activity, all inconsistent with U.N. Security Council resolutions.

Today we hear from two senior Administration officials who play key roles in Iran policy. They will share their perspective on the progress of implementation, the effectiveness of our broader strategy to combat Iran's dangerous and destabilizing behavior in the region, and how we might strengthen it consistent with our JCPOA commitments.

Ambassador Stephen Mull is the State Department's Lead Coordinator for the Iran Nuclear Agreement. Thank you for the work you are doing.

Our chief sanctions enforcer in the U.S., Adam Szubin, serves as Acting Under Secretary for Terrorism and Financial Crimes in the Treasury Department. As our witnesses unanimously reaffirmed yesterday in response to a question from Senator Donnelly, he is eminently qualified, and when we went down the line whether they liked the agreement or did not like the agreement, whether they were supportive of it today or still critical of it today, they all agreed that Mr. Szubin should be confirmed. He is eminently qualified having served initially in the Bush administration and the Obama administration in key national security roles related to economic sanctions and countering terrorist financing. It is inexcusable that Mr. Szubin's nomination was pending in this Committee for almost a year. For no apparent reason was it not acted on. Finally, we acted on it, and now it is being held up by the Republican leadership, again, for no apparent reason—this despite the fact that the Under Secretary for Terrorism and Financial Crimes is one of the most important national security posts in our Government. When I hear colleagues on this Committee and in the Senate overall so critical of the JCPOA, even writing letters to the leadership of a country that is not our friend, and then some of those same people block his nomination for one of the most important national security posts in our Government, I am just perplexed.

As we heard again yesterday, allowing this proven leader to remain unconfirmed undermines America's influence in our efforts to track terrorists and stop them from raising money on the black market or elsewhere.

Mr. Szubin's job is focused on leading our country's effort to disrupt terrorist financing by al Qaeda, by ISIS, by other groups, and especially important to today's hearing, he leads U.S. efforts to

combat Iran's malicious activity in the region. The Senate should vote to confirm him today.

As we heard in our hearing yesterday, Iran has so far complied with its JCPOA commitments. The U.S., Israel, and other allies in the region are safer and more secure because of that. Whether we support it or oppose the JCPOA, we all recognize the need to continue to combat the persistent threat that Iran poses to the U.S. and our allies. It requires the Administration to enforce existing sanctions, to designate new sanctions targets, to block Iran's pursuit of military technologies, and to take other steps to confront Iran and its terrorist proxies like Hezbollah.

It also requires continued coordination with the international coalition whose joint actions make the sanctions regime effective enough to bring Iran to the negotiating table and force it to agree with the JCPOA in the first place. I look forward to hearing our witnesses today describe our strategy in each of these fronts.

Last, Mr. Chairman, in addition sanctions and JCPOA oversight, Congress must also support robust military and other aid to regional partners like Israel. We should be focused on ensuring strict implementation of the agreement and on the most effective ways to pressure Iran's leaders to change their destabilizing behaviors in the region.

I welcome our distinguished Administration witnesses this afternoon. I look forward to hearing their perspectives.

Chairman SHELBY. Mr. Szubin, you may proceed.

**STATEMENT OF ADAM J. SZUBIN, ACTING UNDER SECRETARY
FOR TERRORISM AND FINANCIAL INTELLIGENCE, DEPARTMENT OF THE TREASURY**

Mr. SZUBIN. Thank you very much. Chairman Shelby, Ranking Member Brown, Members of the Committee, it is a pleasure to be back with you today, and thank you for inviting me to discuss our implementation of the JCPOA.

Very shortly after I started at the Treasury Department, in 2004, we saw with alarm the progress that Iran was making in its covert nuclear program and understood that this was a national security threat of the highest order. From that time, the talented women and men in my office have devoted literally tens of thousands of hours to addressing this threat. It has been an effort like nothing I have ever seen or been a part of, working with the intelligence community to identify and track Iranian front companies and their movements of funds, working with the private sector and banks here and abroad to strengthen the vigilance posed with respect to the activities carried out by Iran, working with law enforcement and regulators to hold sanctions violators accountable, and working alongside our diplomats and foreign counterparts to make clear to Iran that the price of its illicit nuclear program was complete isolation from the international community. Partly, and probably most importantly, we worked very closely with the Congress, including Members in particular of this Committee, to secure tough legislation, bipartisan legislation, that sharpened our sanctions tools, deepened their impact, and, I believe, brought Iran to the bargaining table.

After nearly a decade, the accumulated pressure had its intended effect, bringing Iran to the table, convincing it to accept far-reaching constraints on its program. The JCPOA was a tremendous breakthrough. It is a peaceful means of eliminating one of the world's most persistent national security threats.

Iran was a few months from having enough fissile material for a potential nuclear weapon, and it was advancing. Today Iran's breakout time has been extended to beyond a year, and we are all safer for it.

Since Iran has kept its end of the deal, we must uphold ours. It is in our national security interest to ensure that the JCPOA works as intended and stands the test of time. And it is, therefore, important to fulfill all of the commitments that we made in the deal.

Iran is already seeing benefits under the deal. It has opened new banks accounts around the world. It has gained access to billions of dollars in reserves. And its oil exports to Europe have recovered to about half of their presanctions levels.

That said, we still see companies and banks around the world who are hesitating based on concerns about doing business in Iran. Some are concerned about Iran's financial transparency and the designation of Iran by the FATF, the Financial Action Task Force, because of its anti-money laundering and counterterrorist financing deficiencies.

Others are noting concerns about corruption, as well as regulatory and other obstacles to doing business in Iran. And still others cite Iran's provocative behavior outside the nuclear file, including its active support for terrorism and its ballistic missile testing.

As President Obama said recently, "Iran has to understand what every country in the world understands, which is businesses want to go where they feel safe, where they do not see massive controversy, where they can be confident that transactions are going to operate normally."

As Iran pursues more business, I believe it is incumbent on Iran to address these problems, to undertake meaningful reforms, and create an environment in which businesses feel secure.

I have talked a little bit about the sanctions relief that we have delivered under the JCPOA. But I also want to make clear what the deal does not mean.

First, with only limited exceptions, the primary U.S. embargo on Iran remains in place, including the prohibitions on U.S. persons investing in Iran and the prohibitions on Iran accessing U.S. financial markets.

Along these lines, let me say clearly, we have not promised nor do we have any intent to give Iran access to the U.S. financial system or to reinstate what has been known as the "U-turn" authorization.

Additionally, we have maintained all of our sanctions designed to counter Iran's malign activities outside of the nuclear file.

Iran continues to be the world's leading sponsor of terrorism and to play a significant and unhelpful role in the region. It supplies funding and weapons to Hezbollah, to the Assad regime, and to the Houthis in Yemen, and it continues to develop its ballistic missile program, in contravention of U.N. Security Council resolutions. And it continues to violate human rights within Iran.

Under our current sanctions regime, we have designated more than 200 Iranian-linked firms and individuals along these grounds. Thanks to Congress, those designations continue to have effect beyond our borders. Secondary consequences attach for any foreign financial institution that does business with any Iranian party that we have designated and any that we will designate in the coming days.

We have kept at it. Indeed, since the implementation of the JCPOA, we have targeted new actors, including key actors in their ballistic missile program, agents of Mahan Air, which has acted as the Qods Force's airline, and a central Hezbollah money-laundering network. Ultimately, we must remain clear-eyed about the nature of the non-nuclear threats posed by Iran, and we will continue to do so.

Thank you again for inviting me to appear today. I look forward to our continued work with this Committee and to taking your questions.

Chairman SHELBY. Secretary Mull.

STATEMENT OF STEPHEN D. MULL, LEAD COORDINATOR FOR IRAN NUCLEAR IMPLEMENTATION, DEPARTMENT OF STATE

Mr. MULL. Thanks very much, Chairman Shelby, Ranking Member Brown, and other distinguished members of the panel. It is a great pleasure to appear with you today for the first time for me before this Committee to brief and hear your questions and concerns about the Joint Comprehensive Plan of Action. It is a special honor to appear with my colleague Adam Szubin, who does such an extraordinary job every day defending America's security as America's chief sanction enforcer at the Treasury Department.

I am pleased to report that as of today, 4 months after the implementation of the agreement, the agreement, in fact, has been fully implemented by all the parties to it, and I think it is important that we as a country recognize the contribution that that has made to making ourselves and our allies and friends, especially in the Middle East, more secure.

As of Implementation Day under the Joint Comprehensive Plan of Action, which was on January 16th, Iran had completed dozens of specific actions to constrain its nuclear program and subject it to greater transparency from the International Atomic Energy Agency. It reduced by 98 percent its holding of enriched nuclear material that could have been used to build a bomb, shipping about 25,000 pounds of enriched material out of Iran. It cut its installed centrifuges by about two-thirds, and agreed to tight controls on future enrichment activities. It destroyed the core of the heavy-water reactor at Arak which could have produced weapons-grade plutonium, another pathway to a nuclear weapon that this deal has foreclosed. And its implementation of these commitments has not increased the time Iran would need to produce a nuclear weapon—from about 2 months before the agreement took place to about a year today, so a multifold increase in the amount of time, the so-called breakout time, that Iran would need to produce a nuclear weapon.

These actions were complemented by the historically comprehensive verification and monitoring measures that we specified in the

JCPOA. And thanks to those, Iran is now subject to the greatest monitoring and verification regime in the entire history of nuclear power. That gives us the confidence that, if Iran should decide to break out of its commitments, we would detect that attempt immediately, and we would have ample time to respond.

In the event of Iran's noncompliance, at the same time we have preserved our ability to snap back the penalties that Under Secretary Szubin described that brought Iran to the negotiating table in the first place.

As you know, in exchange for Iran's meeting its nuclear-related commitments under the JCPOA, we met our commitments by lifting the nuclear-related secondary sanctions on Iran. In an effort to provide greater clarity to the public and private sectors on what sanctions were lifted and what sanctions remain in place, we have been participating in outreach activities with the public and private sectors and Governments, at the request of other Governments, in order to explain U.S. commitments under the JCPOA. As long as Iran continues to meet its nuclear commitments, we will continue to meet our commitments in the deal as well.

While we are encouraged by Iran's implementation of its nuclear commitments thus far, we have always recognized that the JCPOA would not resolve all of our concerns with Iran. And, in fact, it has not resolved our concerns with Iran. Instead, the JCPOA was specifically aimed at addressing the most urgent issue of verifiably ensuring that Iran does not obtain a nuclear weapon. Thanks to our efforts to date, we have made significant progress toward that goal, and the United States and our partners are safer because of those efforts.

I very much look forward to your comments and questions. Thank you.

Chairman SHELBY. Mr. Szubin, there are a lot of us here, so I will try to be as brief as I can. One of Iran's priorities is to be able to engage in international trade in dollar-denominated transactions, which would not only give it access to the world's strongest and most liquid currency, but would also further legitimize its financial system.

Can you confirm that there are no plans now or in the future for this Administration to allow Iranian, U.S., or foreign persons at any point to engage in either direct or indirect dollar-denominated transactions or dollar clearing in any form, including offshore facilities or through interbank bookkeeping or other conversions or transfers?

Mr. SZUBIN. Well, thank you, Chairman Shelby. The question addresses quite a lot.

Chairman SHELBY. It does.

Mr. SZUBIN. And I will do my best to answer every aspect.

First, you are absolutely right that the dollar is, and thankfully remains, the international currency of choice. Yes, I am sure Iran would like to be able to do its trade through the dollar through U.S. financial institutions. That is the gold standard when it comes to how international trade is done. That is not a part of the JCPOA.

Iran is not given relief from the prohibition on accessing U.S. financial institutions under this deal. We have been very clear about

that throughout, and we have not restored anything like the U-turn transaction that once allowed Iran to do offshore-to-offshore clearing with a U.S. bank in the middle.

Now, your question touched on two different types of activity: one is transactions in the U.S. dollar, which typically take place through a U.S. bank; the other is offshore dollar clearing. On the first, that is what I was just clarifying. Secretary Lew has said so; I have said so repeatedly. U.S. financial institutions are off limits to Iran.

If there is a foreign institution that is doing business with Iran, our sanctions do not prohibit that, by and large, unless they are dealing with the IRGC actors I referenced in my opening statement, so long as they steer clear of our banks and our financial system. And that is true regardless of the currency. So if there is a bank in China that is doing transactions with Iran, it can do those in renminbi, in the local currency, in euro, in yen. It can do them in U.S. dollars based on the dollars that it has on hand. And every major international bank, of course, has some access to dollars in its own vaults and on its own books.

But that is not the same thing as gaining access to, as you described it, the prestigious U.S. financial system and all that comes with it.

Chairman SHELBY. But with their assets they could buy dollars anywhere in the world and move them, could they not, and use the dollars?

Mr. SZUBIN. I am sorry, Senator?

Chairman SHELBY. I said they could still use the dollars as a medium of exchange if they had them.

Mr. SZUBIN. If they are holding U.S. dollar bills, yes. They can do with them what they want.

Chairman SHELBY. Sure.

Mr. SZUBIN. You know, it is an interesting question. We do not treat the U.S. dollar bill as a controlled commodity. If there is a U.S. sensitive good, a nuclear good, we treat that as a controlled commodity, and even once we have exported it offshore, we assert jurisdiction on that if it is ever going to be reexported or reexported again. We do not treat dollar bills in that way, and I think that is a good thing. I think that is part of what has allowed the U.S. dollar to emerge as the primary currency of choice.

Chairman SHELBY. Secretary Mull, what is your answer to that question?

Mr. MULL. Which question, about the dollars or the——

Chairman SHELBY. The whole question I asked him. I directed it at both of you.

Mr. MULL. Yes, well, we completely agree there is absolutely no plan to open the U.S. financial system to the Government or businesses from Iran. The U.S. financial system is off limits. We very tightly guard access to the U.S. financial system through the programs that the Treasury Department has. We reinforce the Department of Treasury's efforts diplomatically in our engagement with our foreign partners, and we completely agree with Acting Under Secretary Szubin's analysis.

Chairman SHELBY. I have a little time left. I want to yield my time to Senator Toomey because he has got to preside over the Senate. Senator?

Senator TOOMEY. Thank you very much, Mr. Chairman, and thanks for having this hearing. As you know, the JCPOA, more commonly known as the “Iran Nuclear Deal”, I thought this was a terrible deal at the time. I thought then it was a bad idea to turn over \$100 billion to the world’s leading State sponsor of terrorism while, among other things, allowing them to retain a significant nuclear infrastructure. And, of course, a bipartisan majority of Senators disapproved of this. But I would like to focus on what has happened since then and the Administration’s response to it since the deal was announced.

To this day, my understanding is the Iranians have still refused to sign or ratify the agreement. They have delivered weapons to the Assad regime. They have taken 10 American sailors hostage at gunpoint and used the event for propaganda purposes, fired missiles near U.S. surface ships in the Strait of Hormuz. They took delivery of advanced surface-to-air missiles from Russia, fired several ballistic missiles in flagrant violation of U.N. Security Council Resolutions 1929 and 2231. And despite all of this bad behavior post-JCPOA conclusion, it seems to me the Administration is, nevertheless, conferring more benefits upon the Iranians than the JCPOA even requires.

We learned the Administration has some plans, I believe, to reward Iran with \$8.6 million U.S. taxpayer dollars in return for getting rid of the heavy water that they are obligated to get rid of anyway without American compensation under the JCPOA. And despite laws that prohibit Iran from having access to U.S. banking, we hear that the Treasury explores loopholes that could permit them, notwithstanding the prohibition, as I understand, on the U-turn transactions. We have Secretary Kerry actively lobbying banks in Europe to do business with Iran. And according to the Iranian Government, the Obama administration is asking the Iranians to keep quiet about missile tests.

Now, it seems, the way it looks to me, that the Administration has taken it upon itself to be responsible for the reintegration of the Iranian economy with the global economy. And that strikes me as a very bad idea.

Just yesterday, Juan Zarate, who is proximately your predecessor at Treasury, laid out several reasons why it is a bad idea for the Administration to take this role, and I am paraphrasing, but one is that it certainly looks like it is the Administration condoning bad behavior.

Second, it creates a dual standard. On the one hand, we are fining European banks and U.S. banks for engaging in questionable transactions with entities including Iran and others, but yet here we are encouraging those very same banks to do this business with Iranian banks. And, most importantly, it seems to me we are giving up the strategic opportunity to put the onus on the Iranians to convince the rest of the world that they should not be subject to any further sanctions because they have gotten their act together, because they are behaving, and yet we are not doing that.

So I guess my question is directed mostly to Ambassador Mull. Why does it seem that the Administration has appointed itself as the party responsible for Iran's reintegration into the world economy, despite the fact that the JCPOA does not require that?

Mr. MULL. Senator, thanks very much for your question. With respect, I would not agree that we have appointed ourselves in that role. As I alluded in my opening comments, Iran engages in seriously destabilizing behavior that threatens our security, that threatens the security of our friends in the region and around the world. However, as a result of this deal, Iran is not able to perform those threatening activities with the credible threat of a nuclear weapon to back it up.

So while we confront Iranian behavior on all of these issues, whether it is on missile, whether it is on regional destabilization activities, support for the Houthis in Yemen and elsewhere, we can feel more comfortable that Iran does not have nuclear weapons to back that up.

Senator TOOMEY. I get that, but just so that I understand, is it the policy of the Administration to pay Iran for the heavy water?

Mr. MULL. The United States decided to purchase heavy water when it became——

Senator TOOMEY. And that is not required by the JCPOA.

Mr. MULL. It is certainly not.

Senator TOOMEY. Has Secretary Kerry been visiting European banks and encouraging them to do business with Iran?

Mr. MULL. Secretary Kerry, at the request of our foreign allies, has met with foreign businesses and banking communities to explain the extent of U.S. sanctions that are still in effect and those that have been lifted because——

Senator TOOMEY. It has been characterized by some European banks as him actively encouraging them to do business with Iran——

Mr. MULL. No, he——

Senator TOOMEY. ——despite the outrageous behavior.

Mr. MULL. Sir, I actually participated with Secretary Kerry in one of those meetings. He was not doing that at all. He was explaining and making clear what the impact of U.S. commitments under this deal were. Obviously, it is a bank's responsibility, businesses' responsibilities to make their own decisions. We cannot force them into it. And as Secretary Kerry has made clear publicly, Iran bears the major brunt of responsibility, if it wants to be integrated with the rest of the world, in making itself an attractive destination for investment by complying with standard laws and practices and banking transparency, anti-money laundering, and anticorruption efforts.

Chairman SHELBY. Thank you, Senator.

Senator TOOMEY. Mr. Chairman, thank you very much.

Chairman SHELBY. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Ambassador, you outlined, I thought very well, the progress we have made on implementation and compliance on reducing uranium levels, on restrictions on R&D and centrifuge production on the redesign of the Arak reactor, the conversion of the Fordow facil-

ity, ongoing inspections, verification. Has there been concern expressed by the IAEA so far of cheating on Iran's part?

Mr. MULL. No, sir, there has not been. The IAEA issued a report at the end of February, the first required after Implementation Day, in which it confirmed that Iran was in full compliance. It will issue another report very soon. The preliminary information is that they will again make that determination.

Senator BROWN. Thank you. And as you know, the P5+1 came together obviously in support of the agreement, as we built consensus through really over a decade-long period, from Condoleezza Rice to Hillary Clinton to John Kerry and the work that Acting Secretary Szubin did. Are there significant—holding that coalition together and moving forward and making the world safer, making the region safer, are there significant disputes of interpretation or implementation among the P5+1?

Mr. MULL. No, sir. I think that there has been remarkable unity among the P5+1 in approaching this deal from the outset. We meet regularly, we converse regularly. I am in regular contact with my counterparts among all the P5+1 to make sure that we stay on the same page, and there are ample opportunities to raise differences in interpretation. Frankly, there have not been any serious differences between—

Senator BROWN. Are there major political challenges made by the majority party in some of these countries the way there is now, the majority party in the legislative branch where there seems to be almost no support, even though—from one of the political parties in this city for an agreement that all six countries have come together unified?

Mr. MULL. My impression is in traveling to the countries of the negotiating parties, some of which are obviously more democratic than others, nevertheless there is strong, broad-based political support in each of those countries.

Senator BROWN. OK. Thank you for that. I think it is important to put this in political context. Under Secretary Szubin, I wanted to ask you a question. The long-term goal, obviously, is to keep Iran from building a nuclear weapon. For years, the U.S. Government, regardless of Administration, beginning in the Bush administration, Secretary Rice, then the Obama administration, Secretaries Clinton and Kerry, have moved—have woven together this consensus with the P5+1 in sort of an unprecedented way when so often there are few issues that all of those countries can agree on the way they have here.

You said at the FDD Washington Forum recently, at their conference, you expressed concern that new mandatory non-nuclear sanctions legislation would risk undermining our unity with those international parties. What did you mean by that?

Mr. SZUBIN. As you point out, Senator Brown, that consensus was hard won, and there were some very difficult patches, to be honest. Our sanctions, in particular the sanctions that Congress passed, with huge bipartisan majorities, to tough our sanctions on Iran, that really did succeed in putting the squeeze to them, their banks, their oil exports. Those were not popular overseas, even among some of our closest partners. And the fact that we were able to bring them all together really is a credit to the State Depart-

ment and to some persistent diplomatic work to come to the table and say we have got this leverage, Iran is saying they want to negotiate, let us do so and let us craft a tough deal that holds them to their commitments.

With respect to new sanctions legislation, what I was referring to is new sanctions that would restore the sanctions that have come off, by which I mean, for example, new sanctions saying Iran cannot sell its crude oil or Iran cannot access its foreign reserves. Sanctions of that type, obviously, if they are nuclear sanctions, would be contrary to the letter and the spirit of the agreement. If they were premised on other non-nuclear conduct, the agreement is silent on that. But certainly our allies around the world would see us taking back major chunks of the sanctions relief as bad faith, and I do not think we want to isolate ourselves in that way.

Senator BROWN. And they made that clear to you?

Mr. SZUBIN. Yes, and to my colleagues at State.

Senator BROWN. Thank you.

Chairman SHELBY. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman. Thank you, Senator Brown.

You have made it very clear, Mr. Szubin, that the Iranians do not have direct or indirect or U-turn access to the American financial system. I presume that the only way they would get such access would be to meet every objection we have to their terrorist behavior, to their missile technology activities, the whole host of legislative provisions and Administration policy that prevents their access. Is that fair?

Mr. SZUBIN. That is correct, Senator, and that is a very effective piece of continued leverage that we, the U.S. Government, hold.

Senator REED. And, indeed, some of the reluctance you described of dealing with Iran is the economic culture, the lack of legal clarity, but one is the fact that this denial of access to the American financial system concerns some people who otherwise might do business with Iran. Is that correct?

Mr. SZUBIN. Yes, sir.

Senator REED. So we still have some leverage, in fact, significant leverage on how Iran can enter the international financial market, correct?

Mr. SZUBIN. That is correct, Senator.

Senator REED. And, Mr. Ambassador, there is a rather complex resolution system in the JCPOA. Has that been used so far? Have we got to a point where we had to call upon the resolution process?

Mr. MULL. No, Senator, we have not, because the parties to the agreement all agree, and affirmed by the IAEA, that on the nuclear side Iran is in full compliance with the deal. We have received no reports of denied access to attempts to inspect in Iran by IAEA inspectors.

On the sanctions relief side, it is clear, I think there is no secret, that various Iranian officials have complained that sanctions relief has not come as quickly as they have expected, but they have not charged that there has been a formal violation of the agreement, so there has been no conflict to resolve as of yet.

Senator REED. Very good. For both of you—Mr. Szubin, you can start—have we seen Nations like Russia, China, and other coun-

tries attempt to circumvent the issue of connection to the U.S. financial system by setting up sort of specialized boutique institutions, or they are not doing that, they are simply, you know, continuing in their usual manner?

Mr. SZUBIN. It might be useful, although I always hesitate to bring up analogies, but it might be useful to bring up the analogy of tax avoidance and tax evasion. There are ways to do business internationally that avoid the U.S. financial system. The U.S. financial system is still the primary way. It is, as I said, the gold standard, but there are ways to do international trade without it, and places like China and Russia, as you mentioned, are certainly looking to develop more robust alternatives. And, you know, in no small part, that might be a reflection of the fact that we have been a leader in putting sanctions on Russia due to their very unhelpful activities in Crimea, eastern Ukraine.

But with respect to actions that would circumvent our banks, that would violate our sanctions, no, we have not seen them actively doing that on behalf of Iran.

Senator REED. Thank you very much.

Mr. Ambassador, any comments?

Mr. MULL. No, we have not seen any activity like that either at the State Department.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Corker, thank you for your indulgence.

Senator CORKER. No. Thank you, sir. Thanks for having the hearing.

Ambassador, you mentioned the snapback provisions in your opening comments, and, of course, for a snapback provision to work, you have got to have something to snap back to that is in place. And so I assume per your statement you agree with most of us here that extending the Iran Sanctions Act before it expires is something that would be good for this agreement.

Mr. MULL. Senator Corker, obviously, the Iran Sanctions Act is in place until the end of this year. And, of course, we have——

Senator CORKER. We leave here, you know, pretty soon, and we are not coming back. And so in order for there to be sanctions to snap back to, you would agree we need to get on with our business, would you not?

Mr. MULL. Well, having the ISA in place or not is not necessary for snapping back. We have sufficient authority through various Executive orders already in place.

Senator CORKER. But you would not object to it because you realize there has to be a regime to snap back to, and so you would support us doing our job and extending it, would you not?

Mr. MULL. Well, the Administration is ready to work with the Congress on that question. We would have to see what form it would take. I know earlier this year there had been——

Senator CORKER. Well, you know what form it would take. We have already passed it. It expires. And if we extend it, it would be in the same form.

Mr. MULL. Yes, sir, there have been various, slightly different variations in how it would be renewed, so we are certainly willing to have that conversation with the Senate.

Senator CORKER. Yeah, but you seem very wishy-washy on this, just for what it is worth, as you have been in multiple settings and it is very off-putting. Either you support the Iran Sanctions Act being extended or you do not. I would like a yes or no, because you cannot snap back to something that does not exist after January 1st.

Mr. MULL. Well, sir, yes, we can fully snap back to the sanction regime that was in place prior to the deal whether or not the ISA is in place. We have—I will try not to be wishy-washy. There are different forms of renewal of the ISA, some of which might have an impact on keeping our commitments under the JCPOA. So the Administration is very open to working with the Congress in approaching that question.

Senator CORKER. Mr. Szubin, at the end of the day, Iran wants access to U.S. dollars most. Is that correct?

Mr. SZUBIN. I would say the dollar and the euro are the two currencies that they want the most.

Senator CORKER. So I know that we, per the sanctions we have in place relative to terrorism and human rights and other kinds of things, are precluding U.S. banks from participating, and you have discussed thoroughly the fact that U-turn transactions are not going to be allowed. But isn't it a little strange that we are out marketing—and we are doing that—to other foreign banks, telling them that if they have dollar reserves, that is not going to affect their ability to do business with us, and they are more than free to do that. It is kind of a weird—it is strange to be so adamant about the fact that U.S. banks cannot do it, and yet you are out—you are doing this, we know this. I mean, Stuart Levey, who preceded you, has written a great op-ed and has said that HSBC is not going to be doing business because of the continued problems that Iran poses to the world and the activities they have been involved in.

But is it not somewhat duplicitous for us to be carrying out our diplomacy in the way that we are doing it, where we are encouraging other people around the world to use their dollar reserves to make sure that Iran's economy does come back, but over here smugly saying that we, in fact, are not doing that U.S. banks?

Mr. SZUBIN. Senator, we are not encouraging foreign businesses, foreign banks to do this business. We try to steer clear of encouraging banks to take on any business. It is just not our place as the Treasury Department to be encouraging that type of work, certainly least of all with a country like Iran where we have active sanctions against them here in the U.S.

What I think is fair and actually is our responsibility is that when we get the questions—and we get a barrage of questions every week, “Can I do this without getting into trouble with U.S. law? Can I do that?”—we need to be able to call it right down the line.

Senator CORKER. But it is strange policy, is it not, that we have foreign banks that we are clearing to use their dollar reserves to do business with Iran and not our own?

Let me move to another topic because my time is running out. If a bill were to pass the House and the Senate that in no way reimposed the nuclear sanctions that were in place but used other sanctions to deal with the fact that, let us face it, I mean, Iran is not complying with UNSCR, the U.N. Security Council Resolution, relative to ballistic missile testing, right? I mean, they are not in compliance—would you agree with that?—with the spirit of that.

Mr. SZUBIN. I would agree.

Senator CORKER. Well, that is a fact, and nothing has happened. And one of the things about this snapback provisions is we know they are ineffective because we know that Russia and China will do the same thing that they have done relative to ballistic missiles. They are not going to allow sanctions to be put in place.

So if Congress were to pass sanctions—not the same sanctions that were utilized for the nuclear deal—on ballistic testing, on human rights, on terrorism, and those types of things, it would seem as if you all have not precluded that, and you all would not stand in the way of us doing that if we felt it was an important thing to do. Is that correct?

Mr. SZUBIN. So, first, I would say the deal was structured in a way so that Russia and China, no matter how belligerent they want to be, cannot stand in the way of the U.S., even by ourselves, even if the Europeans are not with us, ensuring the full snap back of U.N. sanctions, and I think that is a very powerful aspect of leverage in terms of keeping Iran to its commitments.

Senator CORKER. Except that none of them would be involved in it. It is not very powerful, but keep going. In other words, we would be, but they would not.

Mr. SZUBIN. But we would have the ability to reinstitute all of the U.N. Security Council sanctions. I am not talking about U.S. sanctions, which, of course, we retain the ability—

Senator CORKER. I know, but they would not participate in that. But keep going. We know they are not going to participate in that, and that is a ridiculous thought to think that if they do not agree with it, they are going to go ahead and put sanctions in place. It is very naive and sophomoric. But keep going.

Mr. SZUBIN. I would dispute the characterization, but let me keep going.

With respect to new sanctions to be put in place, as I mentioned in response to an earlier question, I think from Chairman Shelby, we would have to look at what are the sanctions affecting. If the sanctions are predicated on missile, on terrorism, that is all fair grounds. And we have said that consistently. In fact, we have not only said that to Congress; we have done that. We have imposed sanctions on—

Senator CORKER. So we could do that, too. If we wanted to put additional sanctions in place that were not the nuclear-related sanctions, on human rights, on terrorism, and on ballistic testing, you would be OK with that?

Mr. SZUBIN. What I would say is there is nothing in the JCPOA that would preclude that. Now, in terms of the Administration's views, what it would go to is: What are those sanctions doing? If the impact of those sanctions is to say no dealings with Iran's central bank, no purchasing Iran's crude oil, no purchasing Iran's pe-

trochemicals—the whole list of things that Congress engineered in order to get Iran to the table on the nuclear deal—if we were to put all of those back but call them terrorism or missile sanctions or human rights sanctions in lieu of calling them nuclear sanctions, I am confident that would be viewed as bad faith, not by Iran but by—

Senator CORKER. But if there were sanctions different than—
Mr. SZUBIN. —our colleagues around the world.

Senator CORKER. Sanctions different than that are not an issue, is what I am hearing. So I thank you for—

Mr. SZUBIN. I think there would be a lot of room for discussion on sanctions different than that, but that would be the analysis we would bring to the question.

Senator CORKER. Thank you.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Secretary, first of all, my deepest condolences on the passing of your father. Rabbi Szubin was an extraordinary religious and community leader in Teaneck, New Jersey, and we all mourn his loss.

And as someone who has been following Iran for a quarter of a century in the Congress and obviously did not support the JCPOA, I must say that I cannot think of anybody better to be in your position than you. And I think you are critical, your permanent appointment is critical to the national interest and security of the United States. And even when we disagree on policy, I have no question that you vigorously pursue the law. And so I hope we will get to that point.

Now, that is the easy part. I have a real concern, Ambassador, the way you answer the question, so let me put it more succinctly. If we take the Iran Sanctions Act as it was passed in law and do not change it at all, are you telling me that renewal of the law as it exists is in any way a violation of the JCPOA?

Mr. MULL. Senator Menendez, what I am saying is that the Administration is ready to work with the Senate—

Senator MENENDEZ. No, that is not my question. Please, do not give me State Department legalese. It is a very simple question. Is reauthorization of the Iran Sanctions Act that I and others were the architect of, as is, without any changes, reauthorizing it, and it expires in 7 months in an election year where we will be here very little, is such a reauthorization a violation of the JCPOA? Yes or no. It is either a violation or it is not—one of the two.

Mr. MULL. Sir, we would have to look at that at the time that it was submitted for—

Senator MENENDEZ. OK. So then that contravenes everything that we were told at the Senate Foreign Relations Committee that, in fact, the existence of the reauthorization and the reauthorization itself is not a violation of the JCPOA. And if you are going to herald that you are going to snap back to something, you have to snap back to what Secretary Szubin in his opening remarks admitted, as well as the Administration has at different times, that it was the sanctions regime that Congress was a significant part of struc-

turing that helped bring Iran to the negotiating table. It either is or it is not. You cannot embrace it in one moment and then throw it away in another.

So we have 7 months before its expiration, and I cannot fathom for the life of me how we do not embrace authorizing it as it is so that at the end of the day the Iranians know that if in the out-years there is any violation, there is immediate snap back to the most significant sanctions that exist.

Now, Secretary Szubin, let me ask you this: You recognize that the sanctions were a driving force at bringing Iran to the table. At the same time, those sanctions were never originally embraced by the international community. We had to work at it. America had to lead. It had to bring people in common cause. And that is normally the case. Is that a fair statement?

Mr. SZUBIN. It certainly is in this case, Senator.

Senator MENENDEZ. OK. So now, if U.S. leadership is important—and it is always going to be important. We are never going to get the world to automatically say, “Oh, yes, let us have sanctions.” We have had to lead. And if sanctions on non-nuclear issues with non-nuclear remedies to those sanctions, meaning not oil, not access to their reserves, but other consequential sanctions to individuals and entities for violations of missile technology, in violation of U.N. Security Council resolutions for terrorism, for destabilizing the region, for human rights were pursued, that is not in violation of the JCPOA.

Mr. SZUBIN. That is right, Senator, and we, I think, need to be very clear, not just in our words but in our actions, that we are going after those aspects of Iran’s activities.

Senator MENENDEZ. And here is my concern: So Stuart Levey, who was the Under Secretary for Terrorism and Financial Intelligence from 2004 to 2011, is an op-ed piece said, “On the one hand, Washington is continuing to prohibit American banks and companies from doing Iran-related business. In February, FATF reaffirmed its prior concerns about the ‘serious threat’ Iran poses to the international financial system, urging countries to apply effective countermeasures. The U.S. Treasury Department’s designation of Iran, including its central bank and financial institutions, as a primary money-laundering concern also still stands. As part of that designation, Treasury determined that ‘the international financial system [is] increasingly vulnerable to the risk that otherwise responsible financial institutions will unwittingly participate in Iran’s illicit activities.’”

And so he goes on to say that Secretary Kerry “is asking international banks to do what U.S. banks cannot do, even though those are admitted risks.”

So it is difficult to understand that—I understand that we have met all of our obligations under JCPOA. Is that not correct?

Mr. SZUBIN. Yes, Senator.

Senator MENENDEZ. The process and whatever we had to do has been met. So if I have met all of my obligations, I do not understand why I have to go above and beyond and to suggest to other financial institutions outside of the United States that they should take a risk that, in fact, U.S. financial institutions do not.

And, finally, how is it that with the IRGC being such an incredible part of the very essence of business in Iran, so to speak, that we in essence are suggesting that you can have encouraging foreign entities to do business with Iranian entities yet threatening sanctions for possibly dealing with the IRGC on the other hand?

Mr. SZUBIN. There is a lot in those questions, and I will do my best to be succinct.

First, we are not encouraging foreign banks to take on this line of business, we are not encouraging foreign businesses to do so, and we are not try to minimize in any way all of those concerns outside of the nuclear file that you have cited. In fact, we have been calling attention to them through public remarks from the State Department and through designations from Treasury against these missile actors, against human rights actors, against those supporting Hezbollah. So we are not trying to sweep any of that under the table. We know that it is a very complicated risk assessment if a foreign bank is looking at Iran and deciding whether or not to go in. And we are not trying to pretend that is otherwise.

What we are doing is being very clear about what the sanctions scenario looks like, and so while it may be a very risky proposition, dealing with Iran in the sense of allowing their foreign reserves to flow, purchasing crude oil from them, purchasing petrochemicals, exporting car kits was once sanctionable. Even if it was as foreign actor whose business did not touch our shores, you could get in trouble with my office for doing that. And that is no longer the case after Implementation Day.

That is what we need to do. We need to just be calling it right down the line. And I would pick up on Senator Corker's comments that that is a strange posture to be in where we have got tough U.S. sanctions in place but foreign actors are allowed to do the business. I concur. It is also the norm when it comes to our sanctions. Our sanctions on al Qaeda, on ISIL, our sanctions on Hamas, U.S. companies are held to our standards; foreign companies are held to different standards, and typically their sanctions regimes are not quite as high. That does not mean we are not working to raise them, but that difference and perhaps that awkwardness is one that we live with every day at Treasury.

I am sorry. Now I am forgetting the final piece of your question. Senator MENENDEZ. IRGC.

Mr. SZUBIN. Yes, so the IRGC does have a foothold in a lot of sectors in Iran's economy, and that is something that we are pushing back against. I think right now this moment is actually a moment of great potential because we are hearing for the first time not just U.S. Government officials saying, "You have to look at what the IRGC is doing. It is a pernicious influence within your economy." You are hearing foreign banks, foreign companies, foreign potential investors saying to the Iranians, "I cannot come in. This looks like the IRGC is in that sector, and I am not comfortable with that."

That produces, I believe, very constructive pressure within the Iranian system, and believe me, there are those within the Iranian system who would like to see the IRGC pushed out, who would like to see real economic reform occur. And the fact that we now have international voices, commercial voices with money who Iran is try-

ing to incentivize saying that same message is very helpful right now.

Chairman SHELBY. Senator Kirk.

Senator KIRK. Thank you.

Mr. Szubin, I wanted to take you back to May 12th when Mr. Levey published an important op-ed in the *Wall Street Journal*. As he said, the Administration is pressuring foreign banks to do more business with Iran. In the op-ed, Mr. Levey explains why HSBC and many U.S. banks have absolutely “no intention of doing . . . business involving Iran.”

Mr. SZUBIN. Yes, thank you, Senator. Obviously, Mr. Levey is not just a former mentor of mine but a close friend.

Senator KIRK. He was your boss for 7 years.

Mr. SZUBIN. That is right, and remains a close friend, and it is nice to see his picture up behind you, to have a friendly face up there on the dais.

Mr. Levey is speaking for HSBC, and he has been very clear about what HSBC is going to do with Iran and, more importantly, what they are not going to do with Iran, and that is their prerogative. It is every bank’s prerogative to decide what they are comfortable doing and what they are not comfortable doing. And it is not for us in the U.S. Government to try to substitute our judgment for theirs or try to push on their calculus.

What we do have to do and will continue to do is set out what our sanctions guidelines are right down the line.

Senator KIRK. When you testified, I wrote down your words here: “unhelpful,” “not good.” You sound like you are an advocate for sanctions against Iran.

Mr. SZUBIN. I am also an implementer of sanctions against Iran.

Senator KIRK. You keep up with the intelligence, don’t you, as Under Secretary for Intelligence and Terrorism? Could you please tell me what the Iranians reported to have written on the side of the Shahab-3 missile that they just launched? Do you even know what they said?

Mr. SZUBIN. Yes, Senator, and here I want to be clear: I am not referencing intelligence but, rather, open press reports appropriate for this setting, which said that they wrote, I believe, “Death to Israel.” That is not the exact quote, but something to that effect on the side of the missile.

Senator KIRK. They wanted to say to wipe Israel off the face of the Earth. For such a distinguished religious scholar such as your dad, what would he have thought about that sentiment?

Mr. SZUBIN. He would have been appalled but not surprised. That, sadly, lamentably, is not a new statement coming out of Iran. And it is one that we have heard from previous Iranian administrations. It is the reason why we were all so concerned that their nuclear program was proceeding unchecked and they were bringing more and more centrifuges online.

When I came to Treasury in 2005–06, I frankly did not think we had a more serious, more pressing National security threat than Iran’s advancing, unchecked nuclear program because of, in part, the attitudes that you are describing.

Senator KIRK. Let me go to another subject. We understand from various sources that the Iranians have now executed over 1,000

just for being gay. What is your comment on that record of human rights?

Mr. SZUBIN. Iran has a deplorable record of human rights, and it is not just with respect to gay people. They have been persecuting religious minorities——

Senator KIRK. So you would agree they have killed about 1,000 people just for being gay.

Mr. SZUBIN. I do not know the statistics on that, but the record is pretty clear with respect to their abuse of human rights within Iran. It is against political dissidents. It is against religious minorities, against their gay population. And Iran needs to be held accountable for that. It is something that the State Department has been very vocal about, not just in their public reports but in private meetings with Iran. I do want to note the very important success that my State Department colleagues had in bringing back a series of American detainees who had been held in Iran for a very long time and getting them back here to their families. And I think we are all very grateful for the hard work that——

Senator KIRK. I might point out that ransom tends to work in bad situations and incur more kidnappings.

Mr. SZUBIN. Well, there was no ransom paid. There were——

Senator KIRK. I would beg to differ.

Mr. SZUBIN. There was a prisoner exchange with respect to Iran, and I was very glad to see that carried out and to see those Americans come back home.

Senator KIRK. A hundred billion bucks a guy is a high ransom payment. We would pretty much run out of money quickly if we were paying ransom rates at that rate.

Mr. SZUBIN. So the \$100 billion I believe you are referencing is a figure that states Iran's total foreign reserves. That is not money we gave them. That is Iran's total foreign reserves. In reality, about \$50 billion of that is gone. It has been committed to bad loans or to propping up their banks. Iran does not have access to——

Senator KIRK. I am glad you mentioned bad loans because I wanted to go in how you do not speak for us here in the Senate, that we have views about what good practices should be. I would say on this Committee I will be encouraging our members to further define the subject of what a good fiduciary does, and investing in Iran is not that. And if you are seeking to do more and more business, we will see you as more of a systemic risk here in this Committee.

Mr. SZUBIN. We certainly hear you loud and clear, Senator, and agree——

Senator KIRK. Because of killing of gay people left and right, you are kind of an unstable personality.

Mr. SZUBIN. Yeah, so we will ensure that we enforce our sanctions, that American companies are not investing in Iran, and that we keep this embargo in place, as the Senator was saying, until we see Iran complying with a whole host of concerns that the U.S. Government and our Congress maintain.

Senator KIRK. Thank you.

Chairman SHELBY. Thank you, Senator.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman, and I want to echo what so many on this panel have said and that I believe you, Mr. Szubin, need to be confirmed if we are going to talk about really bearing down on terrorism. You do play a critical role in that and the many other trafficking things that happen out of Iran. So I do not get it, quite frankly, why you still are in limbo, but you are still in limbo, and I think it is an incredible disservice to a person of your talent and your ability, and I apologize for that, and hopefully we can get you across the finish line sooner rather than later. I want to thank you both for your service. You both do not have to answer these questions, but if you disagree with one another, let me know.

Mr. Levey had said, as was said earlier, that we are encouraging other banks to do what we cannot do in Iran. Is that correct?

Mr. SZUBIN. No, Senator.

Senator TESTER. OK. Is the Administration in any way, Kerry or otherwise, encouraging other banks to do business in Iran?

Mr. MULL. No, sir. We are explaining U.S. sanctions law.

Senator TESTER. Is Kerry lobbying banks, not our banks—or our banks, any bank, to do business in Iran?

Mr. MULL. No, sir.

Senator TESTER. OK. This is the damnedest hearing I have ever been at in my life, quite frankly, because I have heard accusations being made right and left, and you guys have refuted them. Now, it is one of two things. Either the information is not good, or you guys are not telling the truth. I am assuming the information is not good, because I appreciate what you are doing.

I want to ask you something, Mr. Mull. The snapback provisions that were talked about by my friend Bob Corker and my friend Bob Menendez, is it your intention to snap those previous sanctions back in total if Iran violates this agreement?

Mr. MULL. Sir, I think if Iran violated the agreement, we would first apply a very careful and quick analysis to how severe the violation is. The gold standard that we apply in making decisions is the concept of breakout time: How long would it take Iran to produce a nuclear weapon? If Iran inadvertently exceeds a limit, as briefly happened in the heavy-water account earlier this year—

Senator TESTER. Yes.

Mr. MULL. Then we talked to them. They brought it under. They came quickly back into compliance.

If, however, Iran took steps to violate the core requirements of the agreement that affected its ability to rapidly build a nuclear weapon, I can assure you we would move very swiftly to reimpose the appropriate degree of sanctions that had existed before.

Senator TESTER. OK. Can you tell me, there was a statement made earlier by one of the Senators that we have allowed Iran to maintain a significant part of their nuclear infrastructure. Could you shed some light on that, either one of you?

Mr. MULL. I will be happy to take that question, Senator. In fact, Iran has significantly reduced and constrained its nuclear program by removing more than 12,000 centrifuges and dismantling them and putting them into permanent storage as well as removing 25,000 pounds of enriched nuclear material that could have been used to build a bomb.

There are some elements of an enrichment program that are allowed to exist under the deal, under very tight control. Its entire nuclear program is under 24/7 monitoring by the IAEA through inspections, cameras, and other monitoring capabilities, unlike any other in the world.

Senator TESTER. OK. There was some discussion here on the snapback provisions that Russia and China would not be a part of them. Mr. Szubin, I think you agreed with that. And, regardless, that does not mean we could not bring those sanctions back on. Is that correct?

Mr. SZUBIN. Yes, Senator, my point was, first, on the procedural aspect that the deal is set up in a way that any one country—obviously, we would try to build a coalition of countries—

Senator TESTER. Sure.

Mr. SZUBIN. —including, ideally, all the P5+1 were Iran in breach to say we need to snapback sanctions. But in the absence of that, any one country, if it finds Iran to be breaching its commitments, can ensure the full snap back of the U.N. Security Council sanctions.

Senator TESTER. I have got it. So if we could take a step back, it seems to me that same argument could be used, could have been used when this was in front of us, when we had the P5+1 who all thought this agreement should go forward. If we would have said no, do you think those other countries would have gone forward regardless?

Mr. SZUBIN. It would have been, from a sanctions perspective, impossible to go forward with this deal without the U.S.

Senator TESTER. Right.

Mr. SZUBIN. Because the U.S. obviously as a member of the Security Council needs to approve changes to any Iran resolutions in the United Nations, and any changes to our own sanctions obviously require us as well.

Senator TESTER. OK. Thank you very much, Mr. Chairman.

Chairman SHELBY. Senator Cotton.

Senator COTTON. I want to return first to an exchange that Senator Kirk had. We did not have a prisoner exchange. We released duly convicted prisoners in our courts of law, and we waived warrants that were outstanding. They released hostages. I agree with Senator Kirk that the money that was associated with those payments was ransom, but we do not have to get into semantics.

I would like to know this: That \$1.7 billion that was released in close proximity to Iran's release of our hostages, how did we pay that? With dollars?

Mr. SZUBIN. I do not believe that dollars were used in those payments.

Senator COTTON. Does the Treasury Department just have billions of Iranian rials sitting around the basement?

Mr. SZUBIN. No, but Iran has accounts in Europe and in other third countries, and we can certainly make currency available in other denominations.

Senator COTTON. And what was that? What currency was it?

Mr. SZUBIN. I would need to go back and check on that, but I would be happy to get you those answers afterwards.

Senator COTTON. I would like that for the record, please. I would also like for the record the currency in which we will pay \$8.6 million for Iran's heavy water, the purchase of which was announced recently.

Ambassador Mull, are we obligated under the JCPOA to buy Iran's heavy water?

Mr. MULL. No, sir.

Senator COTTON. If we had declined to purchase that heavy water, do you believe that would be a legitimate reason for Iran to withdraw from their obligations under the JCPOA?

Mr. MULL. No, sir. Iran was compelled under the terms of the deal to stay below the cap of 130 metric tons of heavy water. They had the responsibility to dispose of that excess heavy water by offering it for sale and delivering it to a foreign buyer.

Senator COTTON. Secretary Moniz stated that purchase was going to be a one-time purchase, so I offered an amendment that would merely codify that commitment. Yet the President issued a veto threat of the amendment. Is the Energy Department planning on making further purchases of Iran's heavy water?

Mr. MULL. Secretary Moniz has explained to me that, no, he does not—the Energy Department does not plan any future purchases at this time. However, heavy water is something very important to our scientific and medical research community. The market supply is unpredictable, and so the Administration is reluctant to foreclose the possibility of buying heavy water where we are able to.

Senator COTTON. Which is why we frequently buy it from allies like Canada and India.

Moving on, I want to return to questions that Senator Corker and Senator Menendez had and just get a clear answer. Will the Administration commit to a pure extension of the Iran Sanctions Action, yes or no?

Mr. MULL. Senator, all I can say is that the Administration is ready to work with the Congress in studying that question.

Senator COTTON. You also would not commit to Senator Menendez that such an extension, not a substantive change, just striking the date and extending the current terms, might be a violation of the JCPOA.

Mr. MULL. No, I did not say yes or no that it would—

Senator COTTON. To use Senator Corker's language, you were wishy-washy in replying to Senator Menendez.

Mr. MULL. Well, there have been—

Senator COTTON. Let me put it this way: Does the Iran Sanctions Act currently violate the JCPOA?

Mr. MULL. Well, the JCPOA came into effect with the Iran Sanctions Act still in place.

Senator COTTON. I find it hard to believe that a simple extension of it, changing nothing but the date, would, therefore, be a violation.

Has the State Department designated any Iranians as human rights violators since the JCPOA was finalized?

Mr. MULL. Since the JCPOA was finalized last July, there have not been—although there has been a history of multiple sanctions on human rights grounds, especially since the passage of the CISADA Act in 2010, there have not been any sanctions imposed

for human rights grounds since July of last year. However, the State Department continues to fight very hard to shine a spotlight on human rights violations in Iran through the United Nations, the Human Rights Committee, also through our regular reporting on the International Religious Freedom Report, the Human Rights Report, Trafficking Persons Report.

Senator COTTON. So I understand all that, but I will infer that Iran's human rights record has miraculously changed in the last year then.

Mr. MULL. No, sir.

Senator COTTON. Mr. Szubin, I want to move to the question which is in some controversy here but also in public debate: the total value of sanctions relief that Iran will receive. For the record, I know the answer from private briefings on my other committees. I would like to know from you, though, in public here, what is the total value of sanctions relief Iran will receive from the JCPOA? Just top line. I do not need to know how much debt they have or bad contracts or anything else. What is the amount of sanctions relief they will receive?

Mr. SZUBIN. Senator, our top-line figure in terms of their new access to reserves is around \$50 billion. That is—

Senator COTTON. \$50 billion, 5-0?

Mr. SZUBIN. Yes, Senator, that is what I have testified here before this Committee and what we have said publicly. Your question, though, is asking a bigger question, which is: How much relief will Iran get, not how much of their foreign reserves are coming out from under escrow? Relief obviously takes the form of new oil sales. Iran is selling more oil than they were when they were under those sanctions restrictions that Congress put in place. Iran is selling more petrochemicals. Iran is able to import autokits to try to get its auto industry back online.

Senator COTTON. So \$50 billion, though, that is the gross sanctions relief that they might receive? Not net. Not net of any bad contracts or debt they have to other countries. The gross sanctions relief they will receive.

Mr. SZUBIN. No, sir—

Senator COTTON. President Obama suggested in an interview with Jeffrey Goldberg in *The Atlantic* last month that it might be as high as \$150 billion, 1-5-0.

Mr. SZUBIN. Senator, I want to be very precise. I am happy to answer as many questions as you have on this. But I think it is important to be specific about our terms. Fifty billion is not new money that we or the P5+1 are giving Iran. That is Iran's own foreign reserves that were bottled up in escrow accounts under the sanctions. As of Implementation Day, those restrictions came off. Iran has access to those today.

That is not the total value of the deal to Iran. Iran is also looking to the deal to provide new trade, new investment. It has been slow—

Senator COTTON. No, I get that. Barack Obama has brought 6-percent economic growth to Iran even though he has only brought 2 percent to the United States. I am talking about the gross value of sanctions relief. CIA Deputy Director David Cohen last year, when he was still at the Treasury Department, testified that \$100

billion in Iranian foreign currency reserves were blocked by sanctions before the JCPOA.

Mr. SZUBIN. That is correct.

Senator COTTON. Is that an accurate figure?

Mr. SZUBIN. Yes.

Senator COTTON. So now they are no longer blocked.

Mr. SZUBIN. That is right. Those restrictions on Iran's foreign reserves have been released, which means Iran can now access its foreign reserves. The total amount of those reserves that are accessible is \$50 billion at most, and that is our conservative estimate, but that continues to be our estimate.

Senator COTTON. Mr. Mull, you look like you would like to respond.

Mr. MULL. No. I completely agree with my—

Senator COTTON. OK. Well, for the record, I would like to say that this Administration continues a longstanding pattern of misleading the American people in public settings and telling the Congress the truth in private settings.

Chairman SHELBY. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman. And once again I will go on the record saying that I sleep easier knowing, Mr. Szubin, that you are on the job. I greatly appreciate that you take your enormous talents and incredible ability to serve our country in a role that is so incredibly critical to our security. I think it is hard sometimes when we are home to explain how a position at the Department of Treasury could be so critical to our national security interests. And I also stand appalled, quite honestly, that your confirmation is pending. Yesterday, I do not know if you had an opportunity to see the testimony of—or the questioning of my friend Joe Donnelly who questioned a number of people very critical of the Iranian deal basically all saying what high regard they had for you. And since your father was mentioned earlier, I want to express our regrets at his passing in March. He was quite an enormous figure in his community and, I know, a great inspiration to you. And anyone who questions your patriotism on this issue, shame on them. I know where your heart is. We have spent a lot of time.

But I want to get to the questions. Ambassador Mull, in the last 7 months since the deal was reached and the 4 months since the IAEA verified that Iran had met their commitments required to trigger implementation of the deal, how would you assess Iran's level of follow-through on its commitments? Are there any areas that you believe Iran has not been forthcoming? And the great concern that we expressed during our trip to the IAEA was that we do not want erosion of this deal, and it is the steady—you know, kind of like when somebody is a little kid and they just take an inch, take an inch, and take an inch and pretty soon have a mile? We do not want them taking an inch. And so we need to know from you what you are doing. Have you seen any incremental creep in terms of noncompliance and what currently is being done? And what is the appetite at the International Agency to make sure we do not see that creep?

Mr. MULL. Yes, ma'am, thank you. That is an excellent question. I have to tell you, when Secretary Kerry asked me to take this job last summer, he was very clear that we must have zero flexibility

in interpreting the very strict and very specific requirements of this 159-page deal, and we take that operating instruction to heart every single day that my team and I show up for work.

I can tell you—and the IAEA has confirmed this in its reporting since Implementation Day—that, in the main, Iran is compliant with the requirements. It undertook all of the measures it committed to do during the negotiations of this deal.

Senator HEITKAMP. And it is your testimony today that there has been no, even, as you would see it, immaterial breach of this agreement?

Mr. MULL. So what I would say, Senator, is that there have been a handful of occasions since this deal was agreed to last July in which Iranian activities raised some questions about Iran's intent in undertaking those activities. For example, the IAEA documented in February that for a very short time since Implementation Day, Iran slightly exceeded the cap on the amount of heavy water it is allowed to have. The monitoring system worked perfectly. The IAEA immediately alerted all of the agreement parties that this had happened. We engaged with Iran. Iran responded, saying, "Yes, we will bring it under immediately," and within a matter of days, shipped out 20 tons of the material to bring it under compliance again.

As I mentioned, there have been a few other—a handful of other instances like that. We have briefed the Senate privately, in closed session, every time that those have happened. Every single time, Iran has responded to those conversations to bring itself in compliance according to our understanding.

Senator HEITKAMP. OK. Mr. Szubin, I think that there is a narrative that is being written sometimes—and it depends on who you are—up here that we no longer are interested in any sanctions against Iran because we do not want to upset the internal political structure of that country resulting in maybe a less friendly or more conservative election. Can you respond to that? Because I think a lot of what we are talking about here is human rights violations, obviously antiballistic missile. You know, how are we going to maintain a sanction regime on those things that go outside or have never been part of this deal? And is there an attitude within the Administration that we are not going to sanction based on concern about internal politics in Iran?

Mr. SZUBIN. Not at all, Senator. The guidance I have been given from Secretary Lew and from the Administration is to keep at it when it comes to Iran's non-nuclear behavior. And if that were not the case, you would not have seen us coming out with designations, new asset freezes, new sanctions, even since this agreement was entered, even since Implementation Day in January.

Since the beginning of January, we have gone after ballistic missile procurement rings. We have gone after the liquid fuel and propellant industry within Iran and those who are procuring on their behalf. We have gone after Hezbollah money launderers, who are, after all, an Iranian proxy. And we have gone after Mahan Airlines and their procurement agents. That is an Iranian airline that is being used by the IRGC Qods Force to ferry munitions and military advisers to places like Syria and Yemen. We would not be doing

any of that if we were trying to take a soft-glove or a hands-off approach with respect to Iran.

Finally, I just wanted to thank you, Senator Heitkamp, and Senator Menendez for the very kind words about my father. I deeply appreciate them.

Senator HEITKAMP. Thank you.

Chairman SHELBY. Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

Mr. Szubin, I am not sure that there is a better placed individual in the executive branch than you to speak authoritatively on sanctions relief, and I would like to just address two items because I really would like to see if we cannot get to a factual agreement on what has happened so far. I want to just begin. I understand—and we have asked the Secretary about the Iran sanctions which will expire in December, and I understand that you have been involved in explaining to individuals who ask questions about what is in violation and what is not in violation of the JCPOA. And part of that, I would imagine, is under the sanctions which are currently in effect that will expire in December. And I am just curious. I think Senator Menendez was on the right track when he was not asking whether or not the Administration would consider it but, rather, if it would be in violation of the JCPOA. And I would like to give you the opportunity as well to respond in your role and interpretation of these. If we were to extend the Iran sanctions in December, would that be in violation of the JCPOA? You are probably the best person out there that has looked at this.

Mr. SZUBIN. Well, I appreciate the confidence, Senator. I think with respect to what the international agreement says, I would defer to the State Department. But what I can tell you from a sanctions implementation perspective is that when we are out there explaining to foreign Governments, foreign banks, not just what the sanctions landscape looks like through the end of this year, through the end of December, but what the sanctions landscape will look like going into 2017, 2018, and beyond. We presume that those authorities will be there to be put back in place. In other words, that the sanctions that have been lifted or relieved as part of the JCPOA, when we talk about snap back, we talk about snapping all of them back. And that does not mean snapping a portion of them back.

Senator ROUNDS. So your understanding is you explain it to other entities that are asking specific questions so they stay in good graces with our Government and with the Treasury Department, you basically explain to them, based upon having these sanctions in place?

Mr. SZUBIN. Yes.

Senator ROUNDS. Thank you. Let me ask another question then as well, and that is, we are talking a little bit, and you have tried to be specific, but I think there are still some misunderstanding with regard to the assets that Iran has access to. I will try to put this in a way so that you can answer in a public setting based upon publicly available information.

First of all, does the Administration count committed assets to the sanctions relief total? We have got some assets which are com-

mitted. They are held. All right. But also those have been—they are perhaps—another word would be “pledged” assets?

Mr. SZUBIN. Exactly.

Senator ROUNDS. All right.

Mr. SZUBIN. So we would count those as among the 100 billion that exist no paper, but those are not accessible, in the same way that my house, which is under a heavy mortgage, is not accessible to me. If I wanted to sell that on the open market, I could not. It belongs to the bank.

Senator ROUNDS. I think part of where the question comes in is that if you tell someone that you have restricted their ability to that asset now—and by that I mean the asset may be a business, and it is mortgaged, and you say we are going to release our hold on it, even if someone else also has a hold on it, you have now made it more liquid than what it was before. Is that a fair statement?

Mr. SZUBIN. I do not know that I would agree with that. In other words, if you are talking—and we can be very specific even in this setting. If you are talking about collateral that Iran has put down in a third country to basically serve as the collateral for extensions of credit or foreign trade from that country, that is not liquid. Iran cannot get it back.

Now, the fact that there might have once been two restrictions on that and there is only one now, I do not view it as liquid. We do not view those as accessible.

Senator ROUNDS. But our relief for them of sanctions on assets they had are \$100 billion or more?

Mr. SZUBIN. The total Iranian foreign reserves, if you are talking from the books perspective, was \$100 billion.

Senator ROUNDS. OK.

Mr. SZUBIN. The amount of that that is accessible now after Implementation Day—

Senator ROUNDS. Is \$50 billion.

Mr. SZUBIN. —we put at \$50 billion. And I also want to add, because Senator Cotton raised sort of a reference to the fact that he might be hearing something different in a closed-room setting, in a classified setting—I obviously cannot talk about intelligence today, but I can tell you that that figure is the same, whether we are briefing in a SCIF or whether we are briefing in this setting. So I do not know what Senator Cotton was referring to. Obviously, he has left, and I am sorry for that, but we would be happy to talk with you, Senator, or with any others on this Committee.

Senator ROUNDS. There is a discrepancy there because I have attended the same meetings, and I have heard different numbers as well.

Mr. SZUBIN. OK. Then I would be very eager to follow up with you there.

Senator ROUNDS. OK. Now, if I could, and I recognize that my time has expired, but I am just curious if these—no, I will—thank you, Mr. Chairman. I appreciate it. My time has expired.

Chairman SHELBY. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

I want to say, Mr. Szubin, I am very sorry to hear about your father. I know this is a difficult time for you and your family. I appreciate your being here with us.

Last July, the United States and its allies reached an agreement with Iran to roll back its nuclear program in exchange for relief from some economic sanctions, and skeptics of the deal at the time predicted that it would yield a giant payday for Iran. But a recent report by former Treasury officials and other sanctions experts concluded that, and I am going to quote here, "Contrary to myriad public claims, the implementation of the Joint Comprehensive Plan of Action did not lead to a \$100 to \$150 billion immediate windfall for the Iranian regime and a rapid groundswell of new investment revenue."

So, Under Secretary Szubin, I just want to highlight this point. How much relief has Iran actually received from previously frozen assets so far under the nuclear deal?

Mr. SZUBIN. There is about \$50 billion in previously escrowed assets that Iran now has full legal access to as a result of coming into compliance with their nuclear commitment.

Senator WARREN. OK. So they have \$50 billion that they will have legal access to. Have they accessed all of that yet?

Mr. SZUBIN. So that is a trickier question to answer because it is not Iran's goal to move all those 50 to someplace new.

Senator WARREN. Fair enough. But we are looking at 50. That is all I needed.

Mr. SZUBIN. Yes, we are looking at—

Senator WARREN. We are looking at 50. That is kind of the top number there. And how does that number compare to Iran's domestic economic needs.

Mr. SZUBIN. It is dwarfed by those economic needs. We have testified in the past and we continue to assess that Iran is facing about \$500 billion in economic needs just to bring their economy back to ground level.

Senator WARREN. So at least ten times the amount that they received in the frozen—

Mr. SZUBIN. Yes. Yes, Senator.

Senator WARREN. From the previously frozen assets.

Mr. SZUBIN. Including things like unpaid pensions and raided funds that Iran needs to now reconstitute.

Senator WARREN. OK. So it seems like it is a very small amount in comparison to their full economic needs.

Mr. SZUBIN. I would agree with that characterization.

Senator WARREN. OK. Iranian officials are complaining about what they see as the slow pace of sanctions relief and the lack of additional foreign investment that they expected as a result of the nuclear deal. But Iran faces barriers to foreign investment that go well beyond the complexities of longstanding nuclear-related sanctions that were recently lifted. Iran has a long history of money laundering, terrorist financing, corruption, all of which deter foreign investment and contribute to Iran's bad reputation globally.

So, Under Secretary Szubin, instead of blaming the United States for its failure to emerge from economic isolation, what steps should Iran be taking if it wants to become a responsible member of the international financial and commercial system?

Mr. SZUBIN. Well, that is a critically important question, and the answer it calls for is quite a long one because, as you note, there are concerns about Iran's behavior across a whole range of conduct. Obviously, being designated by the international standard-setting body on money laundering and corruption, the FATF, as on their black list is not a good place to be if you are trying to attract investment, if you are trying to attract trade.

To the credit of President Rouhani in Iran, I think they are finally internalizing the fact that if they do not start addressing these areas, they are not going to see the foreign business come in; they are not going to see the investment pour in. And so we do see Iran probably for the first time grappling with some of these issues.

Senator WARREN. So Iran may comply with the nuclear deal and get the sanctions lifted, but if they fail to grapple with their other problems, with terrorist financing, with the lack of transparency in their economy, then you are saying they really are not going to be able to rejoin the Nation's economic system and not be able to build much of a future for themselves.

Mr. SZUBIN. There is a lot of truth to that, Senator. I do try to resist sort of the black or white—

Senator WARREN. Fair enough.

Mr. SZUBIN. —analysis here because I think the reality is somewhere in between. And we are accused in some corners of having generated a windfall for Iran. That is not the case. We are accused by the Iranians of having provided zero sanctions relief and, therefore, reneging on our commitments. That is not the case.

First of all, we have fulfilled every one of our commitments. With respect to the business climate, it is complicated, and there are a lot of factors that are causing banks and institutions to pause. As I said, there is some progress that we see from Iran, but there is a long way for them to go. And I think your bottom-line conclusion that it is going to take some time is accurate. I think Iran has a lot of work to do.

Senator WARREN. Well, I think it is very important to know, as Congress goes from, because, you know, it is no secret that there are some people in Congress who are committed to seeing the Iran nuclear arrangement fail at any price, and we are hearing a lot of rumbling about holding up sanctions relief even if Iran complies with the deal, which may be good politics for some Senators, but it seems to me that it plays directly into the hands of the hardliners in Iran who want to blame the West for their economic woes.

As you rightly point out, Iran must implement serious structural reforms, crack down on money laundering, stop sponsoring terrorism, if it wants to attract sustained investment. But the best way to change Iran's behavior is to keep the pressure on. The worst is to try to score political points in a way that gives the Iranians an excuse not to make the changes that they need to make.

It seems to me that our job is to make sure that if Iran rejects comprehensive reforms, then it has no one to blame for its economic problem except itself. Thank you.

Thank you, Mr. Chairman.

Mr. SZUBIN. I agree, Senator.

Chairman SHELBY. Senator Vitter.

Senator VITTER. Thank you, Mr. Chair. Thank you both for being here.

As you know, a bipartisan majority of this Committee and of the Senate opposed the Iran deal, thought it was a bad deal. But I think what you are hearing today is an additional major concern that I share. Since the deal, a lot of us are seeing two things: Iran taking horrible, negative, bad actions against us, against our allies, since then, in many areas, terrorism, human rights, ballistic missiles, on the one hand; on the other hand, we have helped them beyond our obligations under the deal. And that, in addition to the deal, is very concerning to a lot of us, what Senator Toomey talked about, what Senator Cotton talked about. Is that characterization not correct?

Mr. SZUBIN. Senator, I certainly agree that we have seen Iran come into compliance with their commitments under the deal. What I would say from our end is we have done the same. I do not see us encouraging foreign companies, foreign banks to do business. That is not something we do in any context, least of all in this one.

Senator VITTER. What about the heavy water transaction? You all have testified that was not an obligation of ours under the deal, correct?

Mr. MULL. Yes, sir, that is right. It was not part of the deal.

Senator VITTER. So what did we get for that? They clearly wanted it. They wanted that outlet. They wanted those dollars. What did we get out of it?

Mr. MULL. We got out of it a supply of heavy water that is very important to scientific and commercial research.

Senator VITTER. For which we have had multiple other avenues from allies, correct?

Mr. MULL. Not exactly true. For example, the principal producers, we do not have an heavy water production capabilities, our own in the United States. The principal—

Senator VITTER. Mr. Mull, you are not really suggesting that we did that deal because we needed the heavy water and we could not get it elsewhere. You are not really suggesting that.

Mr. MULL. Yes, sir, for example, there are only two countries that regularly export heavy water: Canada and India. Canada ceased production of heavy water in 1997 and only sporadically makes it available. The quality of the Indian water, the other source of supply, does not completely fit with our domestic requirements here in the United States. So in the marketplace, Iran was obligated to reduce its holding of heavy water, and—

Senator VITTER. Let me just move on and say that the response that we did it because we needed that supply of heavy water, I do not think anyone believes that. It was helpful to Iran. It was helpful as an outlet. It was helpful for their dollars. This notion that Secretary Kerry is meeting with these foreign banks for informational purposes, when calls come into the State Department about what different treaty obligations are and what they mean, are all those calls put through to John Kerry's desk? Does he field all those calls? Does he do all those meetings? Surely the Secretary of State did not have to hold those meetings.

Mr. MULL. Certainly not, and the Secretary of State is not the only person doing that. However, when foreign ministers of close

allies of the United States make personal requests to Secretary Kerry to explain U.S. law, he feels it is part of being a good ally to be responsive to those requests.

Senator VITTER. Well, I think it is clear that the tone and tenor of those meetings was to explain clearly exactly how those foreign institutions could deal with Iran. A similar situation with State sanctions. A lot of States have sanctions against Iran. Those can continue if they are based and premised on terrorist and other activities non-nuclear related. Is that correct?

Mr. MULL. Yes, sir. The same is true at the Federal level as well.

Senator VITTER. Correct. And yet the Federal Government has sent out on a letter to States, and the way I read it is lobbying States to lift those sanctions.

Mr. MULL. Senator, I, in fact, signed that letter because the U.S. Government committed to all of its partners in this deal that we would explain the impact of the Iran nuclear deal to all of our State and relevant local authorities. So the purpose of that letter was to explain what the deal was about, what the deal had accomplished, and asking—offering this information to those authorities that made sanctions decisions on the basis of nuclear concerns about Iran, to offer this information for their consideration in deciding whether or not to move forward.

Senator VITTER. Well, let me ask this: Is our Government, are you or any person in our Government, going to do anything beyond the letter in terms of acting against State sanctions?

Mr. MULL. There are certain constitutional questions at play there. I certainly have no plans to do that. Each State and local authority has its own—

Senator VITTER. So the Administration has no plans to go beyond that letter?

Mr. MULL. I am not aware of any at this time, no.

Senator VITTER. Another example is further restrictions we passed on visa waivers related to terrorist concerns. Iran balked at that, and Secretary Kerry's immediate response was to write them and explain that he will make sure they get the waivers they need and want under other categories. Was that an obligation under the deal?

Mr. MULL. No, certainly not, and there were questions about the impact of that legislation. Again, when we get questions from foreign partners, we try to answer the mail.

Senator VITTER. Well, again—and my time is up—just to summarize, the picture a lot of us see, a majority of us see since the deal that we disagreed with was Iran taking negative actions, horrible actions in some cases against us and our allies, particularly in the categories of terrorism, human rights, ballistic missiles, and us bending over backwards in a positive way toward them beyond the obligations even of the deal we disagreed with.

Thank you.

Chairman SHELBY. Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman.

Mr. Szubin, sorry to hear about your father's passing as well. Many of my friends in the community held him in high regard.

A specific question on the ballistic missile testing that occurred on November 21st, March 8th, and May 9th. Weren't those in violation of the JCPOA?

Mr. MULL. No, sir. Missile launches are not governed by the JCPOA. They are not addressed at all by the JCPOA. They are governed by a U.N. Security Council resolution.

Senator SCOTT. So those ballistic missile testings were not in violations of the JCPOA.

Mr. MULL. No. No, sir.

Senator SCOTT. Thank you.

Mr. Szubin, one of the concerns I have is when I listen to Susan Rice and NSA talk about what would happen with the access to the \$50 billion, her comments on Wolf Blitzer, CNN, was that we should expect more nefarious behavior to be funded through the resources that will be—have access to from the Iranians. Looking back over the history, certainly the CRS has said that between \$100 and \$200 million of funds goes to Hezbollah to fund terrorist activities from Iran. In my State of South Carolina, there are—back in 1983, the Beirut bombing, generally believed to have been perpetrated by Hezbollah, took the lives of five South Carolinians who were faithfully serving their country at the time, and I will read the names of those five South Carolinians: Hospital Corpsman First Class Ronny Bates, Sergeant Freddie Haltiwanger, Staff Sergeant Richard Holberton, Lance Corporal Michael Solz, Gunnery Sergeant Scipio Williams. Those families are still in the midst of a lawsuit, Peterson v. Islamic Republic of Iran, along with 50 other plaintiffs who all live in South Carolina. It is difficult for me to understand and appreciate how we have a lingering lawsuit with so many lives being impacted, at least five South Carolinians having lost their lives, and we are creating more access to more money to continue, as Susan Rice has said, nefarious behavior, i.e., in my words, terrorism activity. It concerns me that we have done so little to engage in a process of stopping that behavior. Comments?

Mr. SZUBIN. Absolutely, and, Senator, the concerns with respect to Iran, its support for terrorism, groups like Hezbollah are ones that I share deeply. And I spend a tremendous amount of my time and that of my colleagues across the Government in trying to track those funds and trying to put substantially greater pressure on Hezbollah. I will say that we were aided in this effort by Congress in passing recent legislation, which the President signed, which says any foreign institution that is knowingly doing business with Hezbollah can get into trouble with us as well. And we are seeing the impact of that already, even in the few weeks since it was passed.

I will note that, despite some very alarmist predictions before the deal went into effect and as we were talking about the deal up in Congress, we have not seen a windfall of money coming into Hezbollah. In fact, today Hezbollah, we believe, is in the worst financial condition it has been in decades, and that is not just a U.S. Government assessment. That is the assessment I hear from our allies around the world, including in the Middle East, who share our concerns with Hezbollah in a very palpable way.

That does not mean we should be, you know, sitting back and being complacent. Far from it. What it means is that our con-

tinuing efforts in the law enforcement channel, in the sanction channel, in the other channels that I should not talk about in this setting, to put pressure on Hezbollah are bearing fruit and that we should redouble those efforts.

Senator SCOTT. But you do not disagree with the fact that, according to the Congressional Research Service, the deal has provided up to \$100 million of funds for Hezbollah through the Iranian deal?

Mr. SZUBIN. I do not know that statement in the CRS. I would be happy to go back and look at it. If that was a statement as to what historically Iran's support to Hezbollah has been, we actually put the number higher than \$100 to \$200 million. But I have not seen any estimates that that would be a contribution coming out of this deal to Hezbollah. I would be happy to look at that, Senator.

Senator SCOTT. I would appreciate that. Thank you.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you, Senator Scott.

Gentlemen, I thank you both for your appearance today. It has been a long hearing, and I wish you well in combating terrorism. Thank you.

Mr. SZUBIN. Thank you, Chairman.

[Whereupon, at 4:10 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF ADAM J. SZUBIN

ACTING UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE,
DEPARTMENT OF THE TREASURY

MAY 25, 2016

Chairman Shelby, Ranking Member Brown, and Members of the Committee, thank you for inviting me to appear today to discuss implementation of the Joint Comprehensive Plan of Action (JCPOA), the nuclear deal we reached with our key partners and Iran. I am pleased to be here with my colleague from the State Department, Ambassador Mull.

I'll begin by explaining how the JCPOA has removed the threat posed by Iran's nuclear program—and how our persistent sanctions and diplomatic efforts helped achieve that result. I'll then outline the role non-nuclear sanctions continue to play in our approach to Iran, and describe our strategy to enforce those sanctions going forward.

The JCPOA

Since I started at the Treasury Department, in 2004, preventing Iran from acquiring a nuclear weapon has been a national security priority of the highest order. For more than a decade, we worked to ensure that Iran had no potential pathway to a nuclear weapon.

We did that by designing a sophisticated, targeted sanctions regime, and combining it with sustained diplomatic efforts to achieve multilateral support for our sanctions. Together with our partners in Congress and the international community, we imposed sanctions that put massive costs on Iran. That helped bring Iran to the negotiating table, and culminated in the JCPOA.

The JCPOA is a tremendous diplomatic breakthrough. It is a peaceful means of eliminating one of the world's most persistent national security threats—a nuclear armed Iran. And it has already paid huge dividends.

On January 16, the IAEA confirmed that Iran had completed its nuclear-related commitments in the deal. The IAEA has verified that Iran has reduced its stockpile of enriched uranium by 98 percent, removed $\frac{2}{3}$ of its centrifuges, permanently disabled its reactor at Arak, and removed all fissile material from its underground facility at Fordow.

Iran has also accepted an unprecedented and comprehensive transparency and verification regime, including continuous monitoring of all of its declared nuclear facilities. In addition, Iran has committed to under no circumstances ever seek, develop or acquire any nuclear weapons, and agreed to prohibitions on activities that could contribute to the design and development of a nuclear explosive device.

Our diplomacy bore fruit. Iran was a few months from having enough fissile material for a potential nuclear weapon, and it was steadily advancing. Now, Iran's breakout time has been extended to beyond one year, and we are all safer because of it.

The JCPOA represents a sea change. It ensures that Iran's nuclear program is and will remain exclusively peaceful. And it is the most powerful example we have of how a multilateral sanctions effort, coupled with tough and principled diplomacy, can succeed.

Our JCPOA Commitments

Since Iran has kept its end of the deal, we must uphold ours.

We've done so by lifting the sanctions we committed to lift, once the IAEA verified that Iran delivered on its nuclear-related commitments under the JCPOA.

Let me reiterate what President Obama, Secretary Lew, and Secretary Kerry have all made clear: we are not standing and will not stand in the way of permissible business activities involving Iran. Nor are we blocking Iran's access to funds that are no longer restricted following the implementation of the JCPOA, or encouraging others to do so.

That will remain true for as long as Iran upholds its end of the bargain. Because creating economic pressure, on its own, was never the purpose of our nuclear-related sanctions. Instead, the goal was to help bring Iran to the negotiating table, where Iran would accept far-reaching constraints on its nuclear program in exchange for certain sanctions relief.

Iran has verifiably implemented its nuclear commitments. We, in turn, have kept our commitment to lift the nuclear-related secondary sanctions that had been in place. We've also issued clear and specific guidance explaining what that means—just as we do when we make significant changes to any sanctions program.

It is in our national security interest to ensure that the JCPOA works as intended and stands the test of time. And it is therefore important to fulfill all of the commitments we made in the deal.

To do otherwise would not only undermine Iran's incentive to comply with the deal's terms. It would also undermine our own international credibility, and our corresponding ability to use sanctions to change behavior in the future across the range of national security threats we target with our sanctions programs.

The Impact Thus Far

Iran is already seeing the benefits of this deal. It has opened new bank accounts around the world. It has gained access to billions of dollars in reserves. And its oil exports to Europe have recovered to about half of presanctions levels.

That said, some are still hesitant in dealing with Iran. That was to be expected.

That does not mean that we have failed to live up to our end of the bargain. We have kept every single commitment we've made in the JCPOA, lifting all nuclear-related secondary sanctions as promised.

What it does indicate is that, even with the nuclear concerns resolved, international companies still have concerns about doing business in Iran. Many of these concerns are not about sanctions.

Some are concerned about Iran's financial transparency standards, and the designation of Iran as a high-risk jurisdiction by the Financial Action Task Force, the world's standard-setting body for anti-money laundering and counterterrorist financing. Others have noted concerns about corruption, as well as regulatory and other obstacles to conducting business in Iran. And still others are concerned by Iran's provocative non-nuclear behavior, including its active support for terrorism and ballistic missile testing.

As President Obama said recently: "Iran has to understand what every country in the world understands, which is businesses want to go where they feel safe, where they don't see massive controversy, where they can be confident that transactions are going to operate normally."

As Iran pursues more business, it is incumbent on Iran to address such problems—to undertake meaningful reforms, and create an environment in which businesses feel secure.

The Sanctions That Remain

I've talked about the sanctions relief commitments we have delivered under the JCPOA. But I also want to be clear about what the deal does not mean.

First, with certain limited exceptions, we have not changed the primary U.S. embargo on Iran.

The embargo long predates our concerns with Iran's nuclear program. In addition to longstanding humanitarian exceptions, the JCPOA includes limited exceptions to the embargo, covering the case-by-case licensing of the sale of commercial passenger aircraft, parts, and services, the import into the United States of Iranian-origin foodstuffs and carpets, and certain activities of foreign subsidiaries of U.S. companies. But the embargo otherwise remains as is.

That means we will continue to prohibit U.S. persons from investing in Iran, importing or exporting to Iran most goods or services, or otherwise engaging in commercial or financial dealings with most Iranian persons or companies. Iran will also continue to be denied access to U.S. markets.

Along these lines, let me also say clearly that we have not promised, nor do we have any plans, to give Iran access to the U.S. financial system, or to reinstate what's called the "U-turn" authorization.

Additionally, we have not lifted any of our sanctions designed to counter Iran's destabilizing activities outside the nuclear file. As we made clear to Iran and our international partners all along, the JCPOA does not affect our non-nuclear sanctions.

These sanctions are not just words on paper. We are vigorously enforcing them.

As we do so, we bear in mind that such sanctions are not means to punish or vent frustration. They are intended, together with other tools, to pressure Iran to change its strategic calculus on terrorism and regional destabilization, on ballistic missiles, and on human rights—just as our now-lifted nuclear sanctions helped to push Iran to change its calculus on its nuclear program. And if Iran makes such a change, then these sanctions, too, could one day be lifted.

Yet, Iran continues to be the world's leading State sponsor of terrorism, and to play a significant role in destabilizing the region. It supplies funding and weapons to Hizballah, to the Assad regime, and to the Houthis in Yemen. It continues to develop its ballistic missile program, in contravention of UN Security Council provisions. And it continues to violate human rights.

Thanks to Congress and the President, we already have the sanctions authorities necessary to counter this type of activity. And I can tell you, as someone who has spent his career designing and enforcing sanctions against Iran—our existing authorities are extremely powerful.

Any Iranian or Iran-related person that we have sanctioned and put on our SDN List—or that we add to the list in the future—is subject to secondary sanctions. That is a stark threat: a foreign bank that does business with such a person could face a total cutoff from the U.S. financial system.

Under our current sanctions regime, more than 200 Iran-linked firms and individuals remain sanctioned on non-nuclear grounds. That number includes the Islamic Revolutionary Guards Corps, or IRGC, the Qods force, and their subsidiaries and senior officials—all of whom we will continue to target and expose.

That number also includes major Iranian defense entities, which have done much of Iran's ballistic missile work. Indeed, since the implementation of the JCPOA, we have continued to impose sanctions on supporters of Iran's ballistic missile program.

Since the implementation of the JCPOA, we have also continued to impose sanctions targeting Iran's support for terrorist proxies.

Hizballah is a key example. In late January, we sanctioned a major Hizballah financial support network, which was laundering criminal proceeds to support Hizballah's terrorism and destabilizing activity. And just last month, we published new sanctions regulations to implement the Hizballah International Financing Prevention Act of 2015—a law which gives us yet more tools in our campaign to destroy Hizballah's financial networks.

After many years of sanctions targeting Hizballah, today the group is in its worst financial shape in decades. And I can assure you that, alongside our international partners, we are working hard to put them out of business. The JCPOA has no impact on our efforts on this front.

Ultimately, we are clear-eyed about the nature of the non-nuclear threats posed by Iran. We will continue to combat these threats using a range of tools at our disposal—including by enforcing existing sanctions, and by designating new targets when appropriate.

Conclusion

In closing, I want to reiterate that, thanks to the JCPOA, we can now counter such threats with the nuclear threat off the table—putting us, our allies, and the world in a safer position.

I also want to assure this Committee that the Treasury Department will continue to work closely with Congress as we implement our existing sanctions to counter Iran's non-nuclear activity, and to serve our overall national security goals—just as we did in the years preceding the JCPOA.

Thank you again for inviting me to appear today. I look forward to your questions.

PREPARED STATEMENT OF STEPHEN D. MULL

LEAD COORDINATOR FOR IRAN NUCLEAR IMPLEMENTATION, DEPARTMENT OF STATE

MAY 25, 2016

Chairman Shelby, Ranking Member Brown, and distinguished Members of the Committee I am pleased to appear before you to discuss the status of implementation of the Joint Comprehensive Plan of Action, or the JCPOA. Thank you for the opportunity.

The finalization of the JCPOA in July 2015 was the culmination of a years-long process of tough and clear-eyed diplomacy. It also marked the beginning of a new process which will require similar vigilance and focus, the goal of which is to ensure the JCPOA is fully and effectively implemented and therefore that Iran is not able to obtain a nuclear weapon. I know that is a goal that we all share equally and I appreciate your continued interest in learning about our efforts.

I am happy to report today that, so far, the JCPOA has been implemented by all participants. It is important that we recognize what an accomplishment that is towards advancing our national security, and that of our allies and partners, particularly those in the Middle East. Because of our efforts to date, the security of the United States and our partners has been immeasurably enhanced and in conversations with allies and partners around the world, we regularly hear support for the JCPOA.

As of "Implementation Day" under the JCPOA, which was January 16 of this year, Iran had completed dozens of specific actions to limit, freeze, or roll back its nuclear program and subject it to greater transparency by the IAEA. It is worth highlighting a few of these actions, given their significance:

- Iran disconnected, removed, and placed in IAEA-monitored storage two-thirds of its installed centrifuge capacity, going from over 19,000 centrifuges to 5,060 used for uranium enrichment at Natanz. These 5,060 centrifuges are the most primitive in Iran's inventory.
- At its previously clandestine Fordow facility, Iran terminated all uranium enrichment and removed all nuclear material.
- Iran reduced its stockpile of up-to-five percent low enriched uranium by 98 percent, going from roughly 12,000 kilograms, where it was when we reached the JCPOA last July, to 300 kilograms or less with an enrichment limit of no more than 3.67 percent, where it must stay.
- Iran removed the core of the Arak heavy water research reactor and filled it with concrete, rendering it permanently inoperable.

Iran's implementation of these and other key nuclear-related commitments increased the time it would take to produce enough fissile material for a nuclear weapon—the so-called “breakout time”—from roughly two-to-three months prior to the JCPOA to at least one year.

These actions were complemented by the enhanced verification and monitoring measures specified in the JCPOA. Among them were increased IAEA access to Iran's uranium mines, continuous monitoring of Iran's uranium mills, and continuous monitoring of Iran's centrifuge production, assembly, and storage facilities. Moreover, Iran is provisionally applying the IAEA Additional Protocol (AP), which allows for much broader IAEA information and access in Iran, and implementing Modified Code 3.1, requiring early notification of construction of new nuclear facilities or modification of existing ones.

In other words, Iran is now subject to even greater IAEA scrutiny, providing us with confidence that, should Iran seek to break out of its commitments, such an attempt would be detected and we would have ample time to respond.

Since Implementation Day, we have maintained focus on ensuring Iran is fulfilling all of its nuclear-related commitments in a complete and verifiable manner. We were pleased to see that, when the IAEA issued its first JCPOA monitoring report in February, it reflected the many steps Iran is taking to implement the JCPOA. And without question, Iran's continued implementation of its nuclear-related commitments under the close watch of the IAEA is in the national security interest of the United States and our partners and allies.

As you know, in exchange for Iran meeting its nuclear-related commitments under the JCPOA, we met our JCPOA commitments by lifting nuclear-related secondary sanctions on Iran. As Acting Under Secretary Szubin has explained, non-nuclear sanctions remain and are an important tool, among others, to respond to Iran's harmful activities.

As long as Iran continues to meet its nuclear commitments, we will continue to meet our JCPOA sanctions commitments. And it is in our interest and that of the international community to ensure that the JCPOA works for all participants, and that the Iranian people begin to experience the benefits of sanctions lifting. The JCPOA has already started to deliver benefits, as evidenced by public reports of trade deals and increasing international commercial and economic activity with Iran.

Some of you may have seen Iranian statements about the United States not living up to its commitments. Let me state unequivocally, the United States has fulfilled all of our commitments under the JCPOA—the lifting of sanctions is working. Today, Iran is able to do far more than it was able to under the crushing pressure of sanctions impacting nearly every sector just several months ago.

However, business decisions are complex. They take into account a variety of factors. As Secretary Kerry has stated repeatedly, every bank or business will make its own decisions about whether to do business in Iran, and the United States will not stand in the way of business that is now permitted. From a U.S. legal perspective, international firms or financial institutions may engage with Iran, as long as they do not involve the U.S. financial system or U.S. persons and avoid working with entities that remain on our sanctions list.

We understand that firms continue to have specific sanctions-related questions or concerns about doing business in Iran. In an effort to provide greater clarity to the public and private sectors on what sanctions were lifted and what non-nuclear sanctions remain in place, the Departments of State and Treasury have been participating in extensive outreach with the public and private sectors, mostly at the request of other Governments, in order to explain U.S. commitments under the JCPOA. Our engagement is focused on providing clear information about U.S. sanctions laws in order to assist companies in ensuring that their activities are consistent with the JCPOA and U.S. law and therefore not sanctionable or prohibited.

Under the JCPOA, we lifted our nuclear-related secondary sanctions. The lifting of nuclear-related secondary sanctions created the foundation for a new future and direction for Iran, but Iran must make its own decisions on pursuing this path. To take full advantage of the economic opportunities created, Iran must address domestic issues that also influence international business decision making—including the lack of transparency in its financial and business sectors as well its own provocative actions, such as the repeated testing of ballistic missiles, State sponsorship of terrorism, and unjust detention of dual-nationals.

Looking ahead, we will remain committed to ensuring the successful implementation of the JCPOA because it makes us all safer. We will continue to monitor its full implementation through, among other mechanisms, the Joint Commission it established. In April, I joined Under Secretary of State for Political Affairs Tom Shannon at the third meeting of the Joint Commission. The meeting provided an opportunity to review the full range of nuclear and sanctions implementation issues.

While we are encouraged by Iran's implementation of its nuclear commitments thus far, we have always recognized that the JCPOA would not resolve all of our concerns with Iran. Instead, the JCPOA was specifically aimed at addressing the most urgent issue of verifiably ensuring Iran does not obtain a nuclear weapon. Thanks to our efforts to date, we have made significant progress toward that goal, and the United States and our partners remain safer because of these efforts. However, more work remains. We will continue to watch closely to ensure Iran does everything it committed to do. I also pledge to continue consulting with you as these efforts continue. Thank you again for the opportunity.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN SHELBY
FROM ADAM J. SZUBIN**

Q.1. *Due Diligence Requirements*—*The Wall Street Journal* reported that Secretary Kerry told a group of non-U.S. banks in May that he would like “. . . to make it clear that legitimate business . . . is available to banks as long as they do their normal due diligence and know who they’re dealing with . . . they’re not going to be held to some undefined and inappropriate standard.”

Given that a number of Iran’s economic sectors are virtually controlled by the Revolutionary Guard and its front companies, and that Iran is still a primary money laundering concern, do you agree with Secretary Kerry that “normal due diligence” would satisfy a bank’s customer screening process?

A.1. Treasury’s Financial Crimes Enforcement Network has labeled Iran a jurisdiction of primary money laundering concern, and the Financial Action Task Force (FATF), an international financial standard setting body has issued numerous advisories regarding Iran, most recently in June, highlighting the country’s elevated risks. While the statement noted that FATF was suspending counter measures against Iran for 12 months, based on Iran’s high level political commitment to an action plan meant to remediate its anti-money laundering and counter financing of terrorism deficiencies, it emphasized that Iran remains on the blacklist of high-risk and noncooperative jurisdictions. Furthermore, FATF called on all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with Iran and emphasized that FATF remains concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system.

For financial institutions dealing with Iran, whether in Europe, the Middle East, or Asia, detailed scrutiny and in depth reviews of Iran-related transactions, accounts and account holders, are already part of normal due diligence practices, as referenced by Secretary Kerry.

Q.2. *Gaming the Global Finance Regime*—The Financial Action Task Force since 2009 has warned countries of its exceptional concern with Iran’s failure to address its terrorist financing risk. Recent statements by Iranian officials, however, have indicated that it is taking first steps to improve its anti-money laundering regime.

Can an active State sponsor of terror ever be considered a legitimate participant in the international financial system?

Are you concerned that Iran can game the FATF system to make it look like it is complying on paper without significant improvements that would put it on par with a legitimate financial system? Why or why not?

A.2. Iran is the world’s leading State sponsor of terrorism, and it will not be able to fully reintegrate into the global financial system until it ceases such activity. We have a number of sanctions and measures to target Iran’s financing of terrorism, including comprehensive U.S. sanctions against Iran. This means that U.S. persons, including U.S. financial institutions, are broadly prohibited from dealing with the Government of Iran, individuals and entities in Iran, including the Islamic Revolutionary Guards Corps (IRGC).

Iran's financing of terrorism, proliferation activity and lack of transparency are all part of the reasons why Treasury's Financial Crime Enforcement Network has found Iran to be a jurisdiction of primary money laundering concern and issued regular advisories warning the public of financial risk associated with Iran.

The Financial Action Task Force (FATF), an international financial standard setting body has issued numerous advisories on Iran, most recently in June, highlighting risks associated with Iran. The June statement noted that the FATF remains concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. Therefore, Iran will remain on the FATF blacklist. Accordingly, the FATF called on all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with Iran.

Iran has made some progress in meeting international anti-money laundering and counterterrorist financing (AML/CFT) standards, but it remains deficient in many areas. While this June the FATF welcomed Iran's high-level political commitment to an action plan meant to remediate its AML/CFT deficiencies, and suspended its call for counter measures against Iran for 12 months, if the FATF determines that Iran has not demonstrated sufficient progress in implementing the action plan at the end of that period, the FATF's call for countermeasures will be reinstituted.

Moreover, the FATF stressed that Iran will remain on the FATF blacklist and the FATF will maintain its call for enhanced scrutiny until Iran addresses all of FATF's AML/CFT concerns, a process that is expected to take years.

Q.3. *Classes of Licensed Transactions*—At the May 24th hearing, the Committee was warned about Treasury using classes of licensed transactions as an inroad to the dollarization and legitimacy of Iranian transactions. Examples of such classes would be the return of Iran's restricted oil escrow funds, aircraft purchases, humanitarian transactions, and heavy water transactions.

What other classes of transactions is Treasury considering for licenses and dollarization of Iranian transactions?

Would you commit to discussing these with Congress before approving them?

A.3. We have not committed to provide, and are not providing, Iran with access to the U.S. financial system. There is no intent to issue licenses for classes of transactions for the purpose of dollarizing or legitimizing Iranian transactions.

OFAC has issued general and specific licenses authorizing transactions that would otherwise be prohibited under the Iran sanctions, when doing so is consistent with broader national security and foreign policy interests of the United States. For example, OFAC has a history of licensing exports of food, medicine, and medical devices to Iran. A long-standing general license authorizes funds transfers to or from Iran that are ordinarily incident and necessary to give effect to licensed transactions, provided that the transfer does not involve debiting or crediting the account of (1) a person who is ordinarily resident in Iran, except when such person is not located in Iran, (2) of the Government of Iran, (3) an Iranian financial institution, or (4) any other person whose property and in-

terests in property are blocked pursuant to the Iranian Transactions and Sanctions Regulations, maintained on the books of a U.S. financial institution. Because specific license applications include information submitted by private parties that may be protected by law, including the Trade Secrets Act and the Privacy Act, we are unable to discuss pending specific license applications.

Q.4. *Beneficial Ownership*—Treasury recently issued its final rules on customer due diligence and beneficial ownership. The rule is intended to make banks keep better track of the owners of companies with accounts at their institutions.

Does Treasury intend to provide specific guidance on how to apply the rule with regard to Iran's IRGC and other clerical-controlled and regime businesses?

Given the influence and control the IRGC can wield, wouldn't any degree of IRGC ownership of a company suggest elevated risks?

A.4. It is important to note up front that the new rule on customer due diligence and beneficial ownership concerns the opening of new accounts in the United States. The United States' comprehensive economic sanctions program against Iran remains in place, meaning that U.S. financial institutions are prohibited from opening accounts for Iranian entities—including Iranian entities with any level of IRGC ownership. This is because our sanctions prohibit U.S. persons, including U.S. financial institutions, from dealing with the Government of Iran, individuals and entities in Iran (including the IRGC), and Iranian Government-owned entities outside of Iran.

These prohibitions have been in place since 1995, and U.S. financial institutions have a long and successful track record of not banking Iranian entities in compliance with these sanctions.

The IRGC remains sanctioned by the U.S. and the EU for its proliferation activities and in the U.S. for its role in human rights abuses. Its covert action arm, the IRGC-Qods Force, is designated in the U.S. for terrorism and in the EU for its support to the Syrian regime. Activities undertaken by the IRGC and the IRGC-QF are part of the reasons why Treasury's Financial Crimes Enforcement Network (FinCEN) has found Iran to be a jurisdiction of primary money laundering concern and issued regular advisories warning the public of financial risk associated with Iran. The Financial Action Task Force (FATF), an international financial standard setting body has also issued numerous advisories regarding Iran, most recently in June, highlighting elevated risks associated with in Iran. The June statement noted that the FATF remains concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. Furthermore, the FATF called on its members and urged all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with Iran.

Q.5. *Treasury Outreach*—I understand Treasury does various types of outreach to the international financial industry either to explain a new regulation or perhaps to deliver a warning of a significant threat.

What countries beyond the UK is Treasury visiting to conduct similar rehabilitative outreach on Iran's behalf?

A.5. Over the last 6 years, we have engaged in extensive outreach to communicate clarity on our Iran-related sanctions architecture to our partners. Consistent with this approach as well as our long-standing practice with respect to outreach, we have met with business groups and Governments here in Washington, DC, and have traveled with our State Department colleagues to meet with Governments and businesses abroad to provide clarity regarding U.S. sanctions as they apply to dealings with Iran after Implementation Day. In such meetings, we explain both the scope of the sanctions lifting that occurred on Implementation Day and what can and cannot be done under remaining U.S. sanctions. Treasury has undertaken this type of travel and outreach in the past when major changes have been made to the sanctions programs administered by OFAC, including during the period of escalating sanctions that brought Iran to the negotiating table. So far, we have visited more than 20 countries to explain the scope of the remaining Iran sanctions. We are ensuring that businesses are fully aware that U.S. primary sanctions remain in place and understand what that entails going forward. In such engagements, we have made clear that U.S. persons and the U.S. financial system cannot be involved in Iran-related transactions, unless they are exempt from regulation or authorized by OFAC (e.g., licensed sales of medicine, medical devices, food and agricultural commodities). We also have explained that our sanctions authorities targeting Iran's support for terrorism, human rights abuses, ballistic missile program, and destabilizing activities in the region were outside of the scope of the JCPOA and remain in place.

Q.6. With regard to Iran, should financial institutions be at all wary of doing business in Iran given the utter lack of transparency in its financial system?

A.6. Iran's systemic money laundering and terrorist financing deficiencies will continue to be an important factor in foreign financial institutions' decisions to engage with Iran. Treasury's Financial Crime Enforcement Network (FinCEN) has found Iran to be a jurisdiction of primary money laundering concern and issues regular advisories warning the public of financial risk associated with Iran. The Financial Action Task Force (FATF), an international financial standard setting body has also issued numerous advisories regarding Iran, most recently in June, highlighting elevated risks associated with Iran. The June statement noted that Iran remains on the FATF the black list, and that the FATF remains concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. Furthermore, the FATF called on all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with Iran.

In addition to considering FinCEN and FATF advisories, U.S. financial institutions are subject to many remaining restrictions and prohibitions on engaging with Iran, including comprehensive U.S. sanctions. This means that U.S. persons, including U.S. financial institutions, are broadly prohibited from dealing with the Govern-

ment of Iran, individuals and entities in Iran, including the Islamic Revolutionary Guards Corps (IRGC).

Q.7. “Dollarized” Transactions—One of Iran’s priorities is to be able to engage in international trade in dollar-denominated transactions, which would not only give it access to the world’s strongest and most liquid currency, but would also further legitimize its financial system.

Can you confirm that there are no plans now or in the future for the Administration to allow Iranian or U.S. or foreign persons at any point in a transaction to engage in either direct or indirect dollar-denominated transactions, or dollar clearing in any form, including offshore facilities or through intrabank bookkeeping or other conversions or transfers? Please do not neglect to specifically address the possibilities of offshore facilities, and intrabank transfer book entries and any other type of conversion opening itself to a dollarized transaction.

A.7. The Administration has not been and is not planning to enable Iranian access to the U.S. financial system or to reinstate the so called “U-turn” general license. Until Iran has addressed other concerns we have with its behavior outside of the nuclear file, the U.S. financial system (including the branches of U.S. financial institutions abroad) will remain off limits to Iran and U.S. persons will not be able to provide financial services or products to Iran without explicit authorization.

To be clear, Treasury does not possess legal jurisdiction over transactions denominated in U.S. dollars that do not involve U.S. persons and occur outside of the United States; rather, we exercise jurisdiction over transactions involving U.S. persons or that transit the U.S. financial system. The free flow of the U.S. dollar, as the international currency of choice for international trade, works in the broader economic, financial, and strategic interests of the United States. As a practical matter, though, most U.S.-dollar-denominated transactions worldwide transit the United States and therefore come under our jurisdiction.

We have publicly stated this position in public guidance we issued on the JCPOA Implementation Day. We would draw your attention in particular to the frequently asked questions (FAQs) A.3, C.6, C.7, C.14, and M.9, which reiterate the sanctions that remain in place (A.3 and C.14), and that (i) U.S. persons remain broadly prohibited from engaging in transactions or dealings with Iran unless the activities are exempt from regulation or authorized by OFAC (A.3 and M.9), (ii) the U-turn is not being reinstated (C.6), and (iii) foreign financial institutions cannot clear U.S. dollar transactions involving Iranian persons through U.S. persons or the U.S. financial system (C.7). These FAQs have been on OFAC’s Web site since Implementation Day and can be found here: <https://www.treasury.gov/resourcecenter/sanctions/Programs/Documents/jcpoafaqs.pdf>.

Q.8. Iran Sanctions Act of 1996 Reauthorization—The Iran Sanctions Act of 1996, as amended, has been a pivotal piece of sanctions architecture since its inception. It is set to expire on December 31st of this year.

What set of circumstances would have either of you advise the President to veto a Congressional reauthorization of the Iran Sanctions Act at any time before December 31st?

Would the President veto a Congressional reauthorization of the Iran Sanctions Act at any time before December 31st?

A.8. I would refer you to my colleagues at the State Department as the Iran Sanctions Act (ISA) is administered by them.

We would note that when Treasury discusses the post-JCPOA sanctions landscape and the potential for sanctions snap back with foreign Governments, financial institutions or businesses, we make clear that all sanctions—including those in the ISA—are subject to snap back at any time, throughout the duration of the JCPOA. ISA does not need to be extended in order to continue to be able to issue sanctions designations when warranted, as we have ample authorities to target missile-related actors, as well as activity related to human rights violations, malicious cyberactivity, and other activity of concern.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COTTON
FROM ADAM J. SZUBIN**

Q.1. What is the top-line gross amount of Iranian assets that have been unblocked as a result of sanctions relief under the JCPOA?

A.1. The Central Bank of Iran (CBI) has recorded itself on paper as having the equivalent of about \$100 billion dollars total in foreign exchange assets, which were inaccessible under congressional sanctions. On Implementation Day, the United States fulfilled its JCPOA commitments to remove the secondary sanctions that restricted the use of those funds. The actual amount that CBI has access to today, however, is about half as large. Iran has committed over \$20 billion as collateral for projects with China, which cannot be moved or freely spent. Tens of billions in additional funds were disbursed as loans to Iran's energy and banking sectors, but those are nonperforming loans with no expectation of repayment. Accordingly, the actual amount of foreign reserves available to Iran today is approximately \$50 billion.

Q.2. In January of last year—when he was the Treasury Under Secretary for Terrorism and Financial Intelligence—CIA Deputy Director David Cohen testified that \$100 billion in Iranian foreign currency reserves were blocked by sanctions. Was his testimony accurate? Have those foreign currency reserves now been unblocked?

A.2. As noted, the CBI records itself on paper as having the equivalent of about \$100 billion dollars total in foreign exchange assets. On Implementation Day, the United States fulfilled its JCPOA commitments to remove the secondary sanctions that restricted the use of those funds. The actual amount of foreign reserves available to Iran is the equivalent of approximately \$50 billion. Foreign financial institutions that host accounts where these funds are located are free to continue to hold, transfer, or process transactions at Iran's request without exposure to secondary sanctions, provided that the transactions do not involve persons on OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List).

Q.3. In May of last year, President Obama told Jeffrey Goldberg of *The Atlantic* that “Iran has \$150 billion parked outside the country,” and suggested this would be made available to Iran under sanctions relief. Was this statement accurate? What type of assets make up the \$150 billion to which President Obama referred?

A.3. Iran has approximately \$100 billion worth of foreign reserves. Iran was only able to access approximately \$50 billion after we lifted sanctions on Implementation Day. This is because over \$20 billion is already dedicated to projects with China, where it cannot be freely spent, and tens of billions in additional funds are effectively nonperforming loans to Iran’s energy and banking sector—or loans that Iran has already provided.

Q.4. Please explain how and in what currency the United States paid the \$1.7 billion settlement to Iran in connection with the freeing of U.S. hostages in January. Please include a description of how any U.S. dollars or U.S. financial institutions were involved in facilitating the transaction, whether directly or indirectly.

A.4. The \$1.7 billion that the United States paid to Iran represented the settlement of a long pending claim at the Iran–U.S. Claims Tribunal in the Hague. The funds were paid to Iran in non-U.S. dollar currencies in a manner consistent with OFAC’s regulations. The payment was made by the U.S. Department of Defense from the Foreign Military sales account and the Department of the Treasury from the Judgement Fund. Iran was not given access to the U.S. financial system to complete this transaction.

Q.5. Please explain how and in what currency the United States will pay \$8.6 million to Iran in exchange for heavy water. Please include a description of how any U.S. dollars or U.S. financial institutions will be involved in facilitating the transaction, whether directly or indirectly.

A.5. Payment by the Department of Energy’s Isotope Program was made in euros in a manner consistent with OFAC’s Iran regulations.

Q.6. I understand that after the signing of the initial JPOA, the Treasury Department was involved in establishing various “humanitarian channels” to facilitate exports to Iran of humanitarian goods. I understand that these channels still operate.

Please explain how these channels operate, which financial institutions are involved, and whether and how U.S. dollars are involved in the channels, whether directly or indirectly.

A.6. In furtherance of the JPOA, the P5+1 committed to establish a mechanism to further facilitate the purchase of, and payment for, the export of food, agricultural commodities, medicine, and medical devices to Iran, as well as medical expenses incurred abroad by Iranians. The mechanism, known informally as “humanitarian channels,” remained in place during the JPOA period. Foreign financial institutions whose involvement was sought by Iran in hosting this new mechanism were provided guidance by OFAC. Companies interested in using this financial mechanism coordinated with their Iranian counterparties. Transactions for the export of U.S.-origin food, agricultural commodities, medicine, and medical devices to

Iran were already authorized by general license 31 CFR 560.530, and were not required to be processed through this mechanism.

The institutions that operated humanitarian channels pursuant to the JCPOA may continue to do so at their discretion even after Implementation Day for transactions for the sale of food, agricultural commodities, medicine, and medical devices to Iran. Following Implementation Day, it is no longer sanctionable for non-U.S. entities—including foreign financial institutions—to conduct transactions with the Government of Iran or Iranian entities, as long as the transactions do not violate the U.S. domestic trade embargo on Iran and do not involve persons that remain on the SDN List or sanctionable conduct described in FAQ A.3.ii-iii of the FAQs issued by Treasury in connection with the JCPOA (https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa_faqs.pdf).

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNER FROM ADAM J. SZUBIN

Q.1. In the past, the Administration has said it would support reauthorization of the Iran Sanctions Act (ISA) only once certain events passed, including the JCPOA Implementation Day passed and then the Majles elections in February 2016. I hope there are not any new reasons for further postponing any movement on this matter. Would the Administration support Congressional reauthorization of the Iran Sanctions Act? Would reauthorization violate the JCPOA? If there is a timing concern about reauthorizing the sanctions, what is that concern, and when will the Administration be comfortable with reauthorization?

A.1. I would refer you to my colleagues at the State Department as ISA is administered by them.

We would note that when Treasury discusses the post-JCPOA sanctions landscape and the potential for sanctions snap back with foreign Governments, financial institutions or businesses, we make clear that all sanctions—including those in the ISA—are subject to snap back at any time, throughout the duration of the JCPOA. ISA does not need to be extended in order to continue to be able to issue sanctions designations when warranted, as we have ample authorities to target missile-related actors, as well as activity related to human rights violations, malicious cyberactivity, and other activity of concern.

Q.2. Why has the Administration not pursued cyberspecific sanctions against Iran, especially given that the Department of Justice has already indicted seven Iranian hackers for the dam and bank attacks?

A.2. Treasury cannot comment about potential sanctions targets or ongoing sanctions investigations. Treasury has, however, already imposed financial sanctions on Iranian actors for their malicious cyberactivities. For example, in December 2014, Treasury sanctioned Douran Software Technologies, an information technology firm involved in an Iranian Government project to monitor computer activity, under Executive Order (E.O.) 13628, which targets censorship and the use of information technology to mask grave

human rights abuses conducted by the Iranian Government against its citizens. At the same time, Treasury imposed sanctions on Iranian company Abysec for its support to the IRGC under E.O. 13553, which targets human rights abuses perpetrated by officials of the Iranian Government and persons acting on behalf of the Iranian Government since the June 2009 election. Abysec assisted the IRGC with hacking projects and was used by the IRGC to train its employees in cybertradecraft and to develop offensive information operations capabilities.

The Administration is pursuing a comprehensive strategy to confront malicious cyberactors, of which Treasury's sanctions authorities, including the cyberfocused E.O. 13694, is one part, along with diplomatic engagement, trade policy tools, and law enforcement mechanisms. We work closely with other Federal departments and agencies to assess the options available to respond to ever-evolving cyberthreats, and we will continue to defend our interests and act to address these threats in line with our national security objectives.

Q.3. We continue to see provocative behavior around ballistic missile testing and launch from Iran, even after we have levied sanctions for the behavior. Have ballistic missile sanctions succeeded in materially obstructing Iran's missile component procurement networks or in deterring future Iranian test-launches of ballistic missiles? There have been suggestions that additional sanctions on entities that provide financing for and logistical support, such as transportation, in support of Iranian ballistic missiles would be useful to apply additional pressure to address this behavior. What discussions have you had within Treasury about how to expand ballistic missile sanctions, and what Iranian activities would warrant additional sanctions?

A.3. We agree that targeted sanctions are a key element of our strategy to disrupt and pressure Iran's missile program and procurement. Accordingly, Treasury continues to vigorously target Iran's ballistic missile program using its domestic authorities, including Executive Order 13382, "Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters" (E.O. 13382), and will continue to do so. E.O. 13382 provides a broad basis for designating individuals and entities contributing to proliferation activities and networks, including those providing financing for or logistical support to Iran's ballistic missile program.

Treasury remains concerned about Iran's ballistic missile program and its continued testing and launches, and we have responded by continuing to designate core entities and key networks involved in, or provide support for, such activity—including in designations in January and March of this year. For example, the designations on January 17, 2016, exposed and targeted individuals and entities involved in procurement activity on behalf of Iran's ballistic missile program, including the financial transactions for procurement of goods for Iran's carbon fiber production line. These designated individuals and entities are now subject to asset-blocking sanctions, effectively cutting them off from the U.S. financial system. Additionally, if a foreign financial institution conducts or facilitates a significant transaction with, or provides significant fi-

nancial services for, any Iranian or Iran-related persons who remain on our SDN List, including those designated on January 17, 2016, and March 24, 2016, it risks losing its access to the U.S. financial system.

Q.4. As you are talking to international firms and financial institutions about what is and is not permissible under our current sanctions regime, are you also reiterating your message that Iran, not the United States, is responsible for how much economic relief they receive from the JCPOA? If so, what has their reaction been to that statement? If not, what are you saying in these meetings to push back against the Iranian accusation that the U.S. is to blame for their economic woes?

A.4. In our outreach to international firms, financial institutions, and foreign Governments, we have reiterated that the United States has met all of its commitments under the JCPOA, including by lifting the sanctions it committed to lift under the JCPOA. OFAC has been clear in its outreach that U.S. commitments do not go beyond those outlined in the JCPOA. We hear from some foreign firms and financial institutions that U.S. sanctions laws are sufficiently complex that they hesitate engaging with Iran for fear of running afoul of U.S. sanctions. There are complex business decisions to be made, but we have made clear the firms and financial institutions must make those decisions, and that Treasury and OFAC do not seek to influence those decisions. Rather, it is our responsibility to ensure that they know the rules of the road and are making decision with a clear understanding of our regulations. Foreign firms and financial institutions have generally acknowledged that their hesitancy to engage with Iran is due in large—and sometimes predominant—part to issues related to the business conditions and investment climate in Iran that are wholly unrelated to sanctions, including: corruption; lack of corporate transparency; antiquated accounting standards; and Iran’s designation as a high-risk jurisdiction by the Financial Action Task Force, the world’s standard-setting body for anti-money laundering and counterterrorist financing, due to Iran’s deficiencies in countering money laundering and terrorism finance. In addition, as the President has stated, Iran’s own behavior is important to generating confidence that Iran is a safe place to do business, and provocative actions such as missile launches calling for the destruction of Israel make businesses nervous. We have made clear, time and again, that it is up to Iran to address these concerns.

RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN SHELBY FROM STEPHEN D. MULL

Q.1. On May 24th, the Committee received testimony that Iran’s ballistic missile arsenal—the largest in the region—can reach any part of the Middle East, including Israel, and that Iran has conducted five ballistic missile tests.

How important is it to U.S. national security interests that Iran terminate its ballistic missile program?

Of the five recent missile tests, how many of those were sanctioned or sanctionable? Should Iran be allowed to continue testing? How does the Administration intend to stop future tests?

A.1. Iran has long had the largest ballistic missile program in the Middle East, and has deployed over the past 30 years hundreds of conventionally armed ballistic missiles—including its Shahab-3 medium range ballistic missile. Iran deploys such ballistic missiles to project power regionally and deter potential adversaries. These missile programs remain one of our most significant nonproliferation challenges, contributing to regional tension and posing a serious risk to international stability.

Because these activities pose a significant threat to U.S. national security, we use a wide range of multilateral and unilateral tools to address Iran's ballistic missile program. For example, we use our participation in the Missile Technology Control Regime (MTCR) to prevent the spread of critical missile technologies and to raise awareness among the 33 other MTCR Partners (members) of the proliferation concerns posed by Iran's missile development, procurement, and proliferation activities. Bilaterally, we continue to work with other countries to interdict missile-related shipments intended for Iran. Additionally, we have called attention to Iran's missile testing activities that are inconsistent with and in defiance of UNSC Resolution 2231; including by reporting Iran's March 2016 missile launches to the Security Council and requesting the Council review this matter to determine an appropriate response. These bilateral and multilateral efforts are critical to persuading countries to prevent transfers of sensitive technology to Iran and also to raising the political costs to Iran for its missile development and testing activities.

We bolster these multilateral and bilateral efforts with unilateral authorities to impose sanctions on entities connected to Iran's ballistic missile programs, procurement network, or testing activities. Following Iran's missile tests in March 2016, the United States designated two Iran-based entities directly involved with Iran's ballistic missile program under Executive Order (E.O.) 13382. These sanctions follow our actions in January 2016, when the United States designated three entities and eight individuals involved in a network that procured materials and equipment for Iran's ballistic missile program. These measures were also taken pursuant to E.O. 13382 and reflect our continued concerns about Iran's missile program, including its October 2015 missile launch.

Q.2. One of Iran's priorities is to be able to engage in international trade in dollar-denominated transactions, which would not only give it access to the world's strongest and most liquid currency, but would also further legitimize its financial system.

Can you confirm that there are no plans now or in the future for the Administration to allow Iranian or U.S. or foreign persons at any point in a transaction to engage in either direct or indirect dollar-denominated transactions, or dollar clearing in any form, including offshore facilities or through intrabank bookkeeping or other conversions or transfers? Please do not neglect to specifically address the possibilities of offshore facilities, and intrabank transfer book entries and any other type of conversion opening itself to a dollarized transaction.

A.2. The Administration is not planning to reinstate the authorization for "U-turn" transactions or give Iran access to the U.S. finan-

cial system. The Administration fully stands by our previous statements, and on Friday, April 1, President Obama confirmed during a press conference that reports that the Administration will grant Iran access to the U.S. financial system are inaccurate.

We will continue to vigorously enforce remaining sanctions on Iran, including our primary sanctions that generally prohibit U.S. financial institutions from clearing U.S. dollars through the U.S. financial system for Iran-related transactions, holding correspondent account relationships with Iranian financial institutions, or entering into financing arrangements with Iranian banks.

Q.3. The Iran Sanctions Act of 1996, as amended, has been a pivotal piece of sanctions architecture since its inception. It is set to expire on December 31st of this year.

What set of circumstances would have either of you advise the President to veto a Congressional reauthorization of the Iran Sanctions Act at any time before December 31st?

Would the President veto a Congressional reauthorization of the Iran Sanctions Act at any time before December 31st?

A.3. It is not necessary to extend the Iran Sanctions Act (ISA) at this time, since it does not expire until the end of 2016. Right now our focus is on continuing to verify that Iran is implementing its nuclear-related commitments under the Joint Comprehensive Plan of Action (JCPOA). Further, it is not necessary to renew the Iran Sanctions Act in order to retain the ability to snapback sanctions. The President could utilize his authorities under the International Emergency Economic Powers Act (IEEPA) and other statutes to impose a variety of economic sanctions that would allow us to recreate sanctions currently required under ISA, if necessary. Indeed, much of our Iran sanctions architecture has been created through the use of Executive Orders that were issued pursuant to IEEPA. These E.O.s can be issued in as little as a few days, which means that we could quickly reimpose sanctions in a snapback scenario.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM STEPHEN D. MULL

Q.1. Ambassador Mull, you said that the U.S. purchase of Iran's heavy water was in our commercial interest, even though there are other suppliers of this material that we consider allies. Are there other U.S. suppliers for this material?

A.1. There are only two countries that regularly export heavy water: Canada and India. The United States currently has no capability to produce heavy water. Canada exports heavy water from inventory only. While the substantial U.S. demand for heavy water for non-nuclear applications has been reliably met in recent years, there is a history of challenges over the past decade.

Q.2. Can you explain why from your perspective purchasing this heavy water from Iran, and not from other suppliers such as Canada and India, made sense? Have any other Nations now started to explore purchase agreements to buy this material to ensure it isn't acquired on the international market by others for nefarious purposes?

A.2. The Joint Comprehensive Plan of Action (JCPOA) ensures that Iran's nuclear program is and will remain exclusively peaceful. To reach Implementation Day, the JCPOA required Iran to take a number of nuclear-related steps that cut off Iran's pathways to acquire enough fissile material for a nuclear weapon, including the plutonium pathway, such as removing the core of the Arak heavy water research reactor and filling it with concrete, rendering the core permanently inoperable. Moreover, Iran reduced its stockpile of nuclear-grade heavy water to less than 130 metric tons (MT), which is the current cap under the JCPOA. Specifically, Iran exported its excess heavy water to Oman, where it is under IAEA monitoring and verification, in anticipation of a sale on the international market.

The United States does not produce heavy water, and currently has no inventory of heavy water that is suitable for industrial and research applications. While the substantial U.S. demand for heavy water for non-nuclear applications has been reliably met in recent years, there is a history of challenges over the past decade. Most international producers of heavy water fill their domestic nuclear demand before it making it available for sale. Moreover, the global supply of heavy water available to the international market is limited while demand continues to grow. Iran making available its excess heavy water reduces the unpredictability of international supplies and helps address these challenges.

This purchase provides U.S. industry with a critical product, while also providing a final disposition for excess heavy water that was exported from Iran prior to Implementation Day as contemplated in the JCPOA. The United States was under no commitment to purchase heavy water from Iran, nor is it committed to do so in the future. It is possible that other countries with a need for heavy water may choose to purchase excess Iranian heavy water as well, and we understand certain countries have already expressed interest in doing so.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY
FROM STEPHEN D. MULL**

Q.1. In response to questions I asked you during the hearing, you noted that you accompanied Secretary Kerry on his recent meetings in Europe and were present when he was meeting with European banks in London on or around May 12th. We have received conflicting reports of whether the Secretary was merely clarifying the scope of sanctions or was encouraging banks to reengage with Iran.

Please provide me with any notes, minutes, readouts, and/or summaries prepared by Secretary Kerry or any State Department staff in connection with these meetings.

A.1. Similar to what was done previously when we were ramping up sanctions on Iran, we are engaging with private sector and foreign Government stakeholders to help them understand the contours of the sanctions relief that was effectuated on January 16, 2016. As Secretary Kerry stated, his meetings in London in particular were an effort to make it clear that permissible business,

within the scope of the Joint Comprehensive Plan of Action (JCPOA), is available to foreign banks.

Q.2. According to Reuters, British Foreign Secretary Phillip Hammond, said that the strategic objective of the joint meeting between U.K. officials, U.S. officials, and European bankers was to draw Iran back into the international community, and actively work “to allow these European and global banks to support European businesses in resuming normal trade and investment patterns with Iran.”

Does Secretary Kerry disagree with Mr. Hammond’s characterization of the meetings’ objectives, which seem to be at odds with merely “clarifying” the scope of U.S. sanctions?

If you agree with Mr. Hammond, what does Secretary Kerry view as “normal trade and investment patterns with Iran?”

A.2. Commensurate with past practice, we are conducting outreach and clarification to Governments and businesses to help them understand the contours of the sanctions relief that was effectuated on January 16, 2016, when the IAEA verified that Iran has met key nuclear-related commitments specified in the Joint Comprehensive Plan of Action (JCPOA). This meeting was part of that effort.

We took a similar approach of meeting with foreign Governments and the private sector to ensure that secondary sanctions to address Iran’s nuclear program were effectively and meaningfully imposed, and it is understandable that similar engagement is now underway to ensure that nuclear-related secondary sanctions are effectively and meaningfully lifted consistent with the JCPOA.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR COTTON FROM STEPHEN D. MULL

Q.1. What is the top-line gross amount of Iranian assets that have been unblocked as a result of sanctions relief under the JCPOA?

A.1. The Treasury Department estimates that when our JCPOA sanctions relief was effectuated on January 16, 2016 (referred to as Implementation Day), the Central Bank of Iran (CBI) about \$100 billion in assets worldwide. However, our assessment is that Iran’s usable liquid assets are around \$50 billion of that total.

Q.2. In January of last year—when he was the Treasury Under Secretary for Terrorism and Financial Intelligence—CIA Deputy Director David Cohen testified that \$100 billion in Iranian foreign currency reserves were blocked by sanctions. Was his testimony accurate? Have those foreign currency reserves now been unblocked?

A.2. The Treasury Department estimates that on Implementation Day, the Central Bank of Iran (CBI) held about \$100 billion in assets worldwide. However, our assessment is that Iran’s usable liquid assets are around \$50 billion of that total.

The other \$50–70 billion are either obligated in illiquid projects (such as over 50 projects with China) that cannot be monetized quickly, if at all, or are composed of outstanding loans to Iranian entities that cannot repay them. Furthermore, because Iran’s freely accessible assets constitute the country’s reserves, not its annual budgetary allowance, Iran will need to retain a portion of that

\$50 billion in available assets to defend its currency and engage in international trade.

Q.3. In May of last year, President Obama told Jeffrey Goldberg of *The Atlantic* that “Iran has \$150 billion parked outside the country,” and suggested this would be made available to Iran under sanctions relief. Was this statement accurate? What type of assets make up the \$150 billion to which President Obama referred?

A.3. The President stated a hypothetical regarding Iran’s use of reserves to Mr. Goldberg. The Treasury Department estimates that on Implementation Day, the Central Bank of Iran (CBI) held about \$100 billion in assets worldwide.

Q.4. Please explain how and in what currency the United States paid the \$1.7 billion settlement to Iran in connection with the freeing of U.S. hostages in January. Please include a description of how any U.S. dollars or U.S. financial institutions were involved in facilitating the transaction, whether directly or indirectly.

A.4. The settlement in January 2016 of a long-standing claim at the Iran–U.S. Claims Tribunal was done on its own merits and unquestionably is to the great benefit of the United States. The release by Iran of several U.S. citizens was part of a reciprocal humanitarian gesture in which the United States provided relief to certain Iranian nationals.

The first settlement payment, in the amount of \$400 million, came out of the Foreign Military Sales Trust Fund, or FMS account. Treasury worked with the Defense Finance and Accounting Service (DFAS) and the Federal Reserve Bank of New York (FRBNY) so that the funds were converted from dollars to Swiss francs and credited to a FRBNY account at a European bank. On January 17, the payment was provided to an official from the Central Bank of Iran for transfer to Tehran.

The second payment, involving settlement of the dispute over interest on the funds in the FMS account, was made from the Judgment Fund. The Judgment Fund is the source of funding Congress has provided for use generally in paying judgments and settlements of claims against the United States when there is no other source of funding. Treasury disbursed the payment after receiving the appropriate approvals from the Department of Justice. The payment from the Judgment Fund was initiated through a transfer to an account of a European bank. Pursuant to an arrangement between Iran, the home country of that bank, and the United States, the European bank converted the \$1.3 billion into Euros and disbursed the banknotes to an official from the Central Bank of Iran. This process occurred in two installments, one on January 22, and one on February 5.

The sanctions regime we have built with our international partners effectively cut Iran off from the international financial system. Iran was very aware of the difficulties it would face in accessing and using the funds if they were in any form other than cash, even after the lifting of sanctions under the Joint Comprehensive Plan of Action. Therefore, effectuating the payment of the funds in the FMS account and the subsequent payments in cash for the compromise on interest was the most reliable way to ensure that the funds were received in a timely manner.

For both payments, no direct transfer was made from any U.S. account to Iran. These transactions complied with U.S. sanctions law and did not require a unique license, waiver, or other form of authorization. Treasury regulations explicitly authorize all transactions necessary for payments pursuant to settlement agreements entered into by the United States Government in a legal proceeding in which the United States is a party, such as a settlement of claims before the Tribunal.

Q.5. Please explain how and in what currency the United States will pay \$8.6 million to Iran in exchange for heavy water. Please include a description of how any U.S. dollars or U.S. financial institutions will be involved in facilitating the transaction, whether directly or indirectly.

A.5. The U.S. Department of Energy's Isotope Program will pay Iran the Euro equivalent of approximately \$8.6 million in exchange for 32 metric tons of heavy water. Payment to Iran will be made in Euros. The transaction and the payments were all authorized by the U.S. Treasury Department's Office of Foreign Assets Control. The routing was through third-country financial institutions and is similar to the mechanism that has been used for years to allow other authorized transactions—such as for exports of food and medicine—between the United States and Iran.

Q.6. I understand that after the signing of the initial JPOA, the Treasury Department was involved in establishing various “humanitarian channels” to facilitate exports to Iran of humanitarian goods. I understand that these channels still operate.

Please explain how these channels operate, which financial institutions are involved, and whether and how U.S. dollars are involved in the channels, whether directly or indirectly.

A.6. In furtherance of the JPOA, the P5+1 committed to establish a mechanism to further facilitate the purchase of, and payment for, the export of food, agricultural commodities, medicine, and medical devices to Iran, as well as medical expenses incurred abroad by Iranians. The mechanism, known informally as “humanitarian channels,” remained in place during the JPOA period. Foreign financial institutions whose involvement was sought by Iran in hosting this new mechanism were provided guidance by the Office of Foreign Assets Control (OFAC). Companies interested in using this financial mechanism coordinated with their Iranian counterparties. Transactions for the export of U.S.-origin food, agricultural commodities, medicine, and medical devices to Iran were already authorized by general license 31 CFR 560.530, and were not required to be processed through this mechanism.

The institutions that operated humanitarian channels pursuant to the JPOA may continue to do so at their discretion even after Implementation Day for transactions for the sale of food, agricultural commodities, medicine, and medical devices to Iran. Following Implementation Day, it is no longer sanctionable for non-U.S. entities—including foreign financial institutions—to conduct transactions with the Government of Iran or Iranian entities, as long as the transactions do not violate the U.S. domestic trade embargo on Iran and do not involve persons that remain on the Specially Designated Nationals (SDN) List or sanctionable conduct de-

scribed in FAQ A.3.ii–iii of the FAQs issued by Treasury in connection with the JCPOA (http://redirect.state.sbu/?url=https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa_faqs.pdf).

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNER
FROM STEPHEN D. MULL**

Q.1. In the past, the Administration has said it would support reauthorization of the Iran Sanctions Act (ISA) only once certain events passed, including the JCPOA Implementation Day passed and then the Majles elections in February 2016. I hope there are not any new reasons for further postponing any movement on this matter. Would the Administration support Congressional reauthorization of the Iran Sanctions Act? Would reauthorization violate the JCPOA? If there is a timing concern about reauthorizing the sanctions, what is that concern, and when will the Administration be comfortable with reauthorization?

A.1. The Administration does not believe that it is necessary to extend the Iran Sanctions Act (ISA) at this time, since it does not expire until December 2016. Right now, we are focused on ensuring that Iran continues to fully implement its nuclear-related commitments under the JCPOA.

The expiration of the ISA in December will not affect our ability to continue to issue sanctions designations when warranted, as we have ample authorities to target missile-related actors, as well as activity related to human rights violations, malicious cyberactivity, and other activity of concern. Nor would ISA's sunset affect our ability to snap sanctions back into place, should Iran significantly fail to perform its nuclear commitments in the JCPOA. Existing authorities give us all the tools we currently need to monitor and respond to any destabilizing activity or JCPOA noncompliance from Iran.

My colleagues and I would be happy to engage in further discussions with Congress about how to further foreign policy priorities in a manner that does not jeopardize JCPOA implementation.

Q.2. Why has the Administration not pursued cyberspecific sanctions against Iran, especially given that the Department of Justice has already indicted seven Iranian hackers for the dam and bank attacks?

A.2. The Administration is pursuing a comprehensive strategy to confront malicious cyberactors, a point the President made clear when signing the Executive Order enabling the use of economic sanctions against malicious cyberactors. That strategy includes diplomatic engagement, trade policy tools, law enforcement mechanisms, and imposing sanctions on individuals or entities that engage in certain significant, malicious cyberenabled activities.

The Department of Justice's March 24 indictment of seven individuals for alleged cyberattacks against the United States is proof that we will act when we see evidence of cyberthreats from Iran.

We take seriously all such malicious activity in cyberspace, and we will continue to use all the tools at our disposal, including sanc-

tions, to deter, detect, counter, and mitigate such activity in a manner and timeframe appropriate to the incidents themselves.

Q.3. We continue to see provocative behavior around ballistic missile testing and launch from Iran, even after we have levied sanctions for the behavior. Have ballistic missile sanctions succeeded in materially obstructing Iran's missile component procurement networks or in deterring future Iranian test-launches of ballistic missiles? There have been suggestions that additional sanctions on entities that provide financing for and logistical support, such as transportation, in support of Iranian ballistic missiles would be useful to apply additional pressure to address this behavior. What discussions have you had within Treasury about how to expand ballistic missile sanctions, and what Iranian activities would warrant additional sanctions?

A.3. The United States uses a wide range of multilateral and unilateral tools to address Iran's ballistic missile programs. While our sanctions authorities are an important part of these efforts, we also work with foreign Governments to prevent transfers of equipment and technology to entities affiliated with Iran's missile program. Such efforts help delay the advancement of these programs and make Iran's procurement efforts more costly, time consuming, and difficult. In addition, we continue to call attention to Iran's missile testing activities at the United Nations, for example, reporting Iran's March 2016 missile launches to the Security Council and requesting the Council review this matter to determine an appropriate response. Such efforts help raise awareness among other Governments of Iran's missile development efforts and raise the political costs to Iran for these provocative missile testing activities.

We bolster these multilateral and bilateral efforts with unilateral sanctions authorities to impose penalties on entities connected to Iran's ballistic missile programs, procurement network, or testing activities. For example, following Iran's missile tests in March 2016, the United States designated two Iran-based entities directly involved with Iran's ballistic missile program under Executive Order (E.O.) 13382. Moving forward, we will continue to use our current unilateral sanctions authorities as warranted to help address the full spectrum of Iran's activities related to its missile program.

Q.4. As you are talking to international firms and financial institutions about what is and is not permissible under our current sanctions regime, are you also reiterating your message that Iran, not the United States, is responsible for how much economic relief they receive from the JCPOA? If so, what has their reaction been to that statement? If not, what are you saying in these meetings to push back against the Iranian accusation that the U.S. is to blame for their economic woes?

A.4. Commensurate with our engagement around the world on the occasion of any significant change in U.S. sanctions, we are providing guidance necessary to ensure that foreign Governments and the private sector understand clearly the extent of U.S. sanctions relief provided under the JCPOA. It is in our interest to ensure that the JCPOA works for all participants.

Implicit in your question is the fact that we cannot and do not ignore the importance of Iran's own actions in generating confidence that Iran is a safe place to do business. For our part, we will continue to answer questions and address concerns regarding U.S. sanctions lifting, but there are also many factors beyond our control slowing Iran's economic recovery that have nothing to do with sanctions. And we also recognize that it is going to take time for some companies to feel confident in reengaging with Iran due to concerns other than sanctions.

President Obama spoke to this recently, when he pointed out the importance of Iran's own behavior in generating confidence that Iran is a safe place to do business.

As the President said, "when Iran launches ballistic missiles with slogans calling for the destruction of Israel and continues to ship missiles to Hezbollah, that makes businesses nervous. When Iran continues to ship missiles to Hezbollah, that makes businesses nervous."

Iran has to understand what every country in the world understands, which is businesses want to go where they feel safe, where they don't see massive controversy, where they can be confident that transactions are going to operate normally."